TAXATION

A REVIEW AND RECOMMENDATIONS FOR REFORM

FINAL REPORT TO THE
GOVERNMENT OF MANITOBA
November, 1986
Michael B. Decter
Managing Partner
The October Partnership

THE OCTOBER
PARTNERSHIP

Consultants in Public Policy and Strategic Management

November 19, 1986

Honourable Eugene Kostyra
Minister of Finance
Room 103
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

I am pleased to transmit to you with this letter the final report commissioned by the Government of Manitoba -- Taxation -- A Review and Recommendations For Reform. This report addresses the need for reform of the taxation system to improve fairness and to ensure adequate financing for needed public services.

The report makes clear that reform of the Federal tax system is an urgent and essential priority. It also finds that in the absence of significant Federal reforms which improve progressivity and revenues, the Province will need to both increase its tax levels and improve progressivity to the limited extent possible within the Province's authority.

A very thorough review of Provincial revenue and reform options is contained in the report. As well, measures to improve progressivity are highlighted. I hope that the hard work by members of your Department and others represented by this report is of assistance to you in tasks you face.

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Finally, I would like to express my deep appreciation for your support and cooperation during the past several months. These are not easy times for those in public office. They are particularly difficult for those who carry the burdens of the Minister of Finance. I wish you well in the important challenge of convincing Manitobans, other Canadians and the Government of Canada of the necessity for reform of the taxation system.

Sincerely,

Michael B. Decter

Michael B. Decter
Managing Partner

cc: Honourable Howard Pawley
Honourable Vic Schroeder
Honourable Muriel Smith
Harvey Smith, M.L.A.
George Ford
Charles Curtis
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EXECUTIVE SUMMARY

FINDINGS

The Canadian income tax system, both personal and corporate, is in need of urgent reform. By loading a myriad of objectives onto the tax system, successive federal governments have created an unworkable, unfair situation for taxpayers and fiscal crises for governments. The unfairness of this situation is evident by even a casual observer of events in our nation. Wealthy Canadians and large corporations, aided by skilled lawyers and advisors and because of an Income Tax Act containing a bewildering array of special preferences and inequities, have been able to avoid paying their fair share of taxes. Working Canadians of moderate income have been compelled to bear an unfair burden of taxation. Low income Canadians have been hurt by program cutbacks caused by fiscal pressures and by regressive tax changes. A broadened tax base with a greatly reduced number of tax expenditures is a necessary objective for reform.

Our economy also has changed dramatically and inexorably from one dominated by resources and manufactures to one in which services provide the vast majority of jobs and activity. This economic transformation provides an additional reason for broadening the tax base in the interests of fairness and equity.

REVENUE

The own-source revenue of the Manitoba Government has grown dramatically from its modest beginnings of a few hundred thousand dollars annually. As recently as the 1940's specific provincial tax measures were small in number and financial impact.

Apart from income taxation, the first notable tax intervention that plays a major role in the current revenue mix was the introduction of the gasoline tax in 1923. Revenue from this tax has grown from less than $10 million in the mid-1950's to an estimated $115 million in 1986-87.

The most dramatic revenue increases over the past two decades were gained from the taxes on tobacco and retail sales and from the levy, three measures which are now responsible for 36% of the total estimated (1986-87) $1.9 billion in revenue from taxation. The largest contribution to taxation revenue is from the Corporation and Individual Income Taxes, which are estimated to have a collective impact of $866 million in 1986-87.

In addition to the province's taxation measures, other sources of revenue have evolved in the area of fees and charges for a variety of government-delivered services. The major fees and charges will total $310 million in 1986-87 and include land titles fees ($11 million), the Liquor Control Commission revenues ($145 million), automobile and motor carrier licences and fees ($30 million), drivers' licences ($6 million), water resources charges ($31 million), and parks fees ($5 million).

Revenue from the Government of Canada includes $232 million for a range of capital shared-cost and other programs, $510 million for equalization and $434 million for established programs financing, for a total of $1.2 billion in 1986-87. This represents 35% of the projected 1986-87 total revenues of $3.4 billion compared to the provincial own-source revenue level of 65%.

The declining federal share of the cost of Manitoba government operations presents major difficulties for the province. Its impact is especially important considering the role of federal contributions in supporting just the priority core programs of government.

The evolution of the province's revenue base is clearly going to continue in the context of a number of distinct trends and adjustments:

a. diminishing federal contributions;

b. increased reliance on provincial own-source revenues;

c. necessary enhancements to the provincial own-source revenue base.

ECONOMIC GROWTH

Manitoba's economy is not immune to the national and international cycles of recession and growth. With the rapid movements of interest rates, commodity prices and the dependence on trade of the larger Canadian economy, we are influenced by the American economy to a tremendous degree. However unpredictable those impacts may be, the next 5 to 10 years in Manitoba offer the prospects of solid, sustainable economic growth. Major investments in hydro-electric development at the Limestone and Conawapa projects and urban redevelopment of the Core Area, North Portage and East Yards areas are likely to underpin a stable period of increasing activity. Despite severe difficulties in the farm and mining sectors the overall prospect is encouraging.

Of particular note is the approximately 3% annual average growth rate forecast for real gross domestic product over the next 5 years. Manitoba should enjoy a reasonably steady period of economic growth supported by investment and population trends.

NEW SOURCE POTENTIAL

In conducting this review a wide array of possible new revenue sources was considered. The following specific possibilities are discussed as worthy of serious review, although not all are recommended for implementation.

WEALTH TAXES

Beginning in 1893, succession duties and gift taxes provided a direct taxation of wealth. Provinces imposed their own succession duties from 1893 to 1941 when the federal government undertook national measures while sharing revenues with the provinces. In 1972, the federal government delegated the levies to the provinces. This delegation proved to be the undoing of wealth taxation in Canada. The 'house of cards' situation produced a gradual elimination of succession duties on a province-by-province basis.

In other nations succession duties are well accepted as part of the taxation system. An OECD report on personal income tax systems indicated that in 1983, seven countries -- Belgium, France, Greece, Japan, Portugal, Switzerland, and the United States -- received revenues in excess of .2% of their GDP from estate/inheritance/gift taxes.

In the interests of equity, wealth taxes should be the subject of a joint review by the Federal and Provincial Departments of Finance and considered as a component of the overall Tax Reform discussion.

NET INCOME TAX

Because of the myriad of special preferences, deductions and exemptions, an additional point of Provincial Personal Income Tax raises a relatively small amount of revenue (approximately $13.5 million). For this reason and because of the province's objection to many of the special preferences, the concept of a tax on Net Income has been under internal discussion for some time. Net income is a broader income base than Taxable Income.

The net income tax option appears to accomplish its intended objectives. The option discussed represents a reasonably progressive, income-related means of raising substantial added revenues. It also would put in place an additional revenue source, which with appropriate modifications to the definition of "net income", could be used to protect provincial PIT revenues from some federal tax-reducing changes, such as the capital gains exemption. As such, the measure appears to be consistent with the objectives of tax reform.

LAND TRANSFER TAX/LAND SPECULATION TAX

There are two potential taxation measures which could be imposed over and above the current fees levied by Land Titles for mortgage registrations and land title transfers.

First, a land speculation tax could be imposed as a capital gains tax on realty. Such a tax was in effect in Ontario from 1974 to 1978, imposed at a time when land prices were escalating. Principal residences, commercial properties, and some other properties were exempt. The measure was discontinued in 1978 for three reasons: First, much lower than projected revenues; second, the decline in excess profits due to increases in interest rates; and third, the negative public reaction. If Manitoba was to consider a similar tax, it is unlikely that the revenue collected would be significant. Also, there would be negative consequences similar to those faced by Ontario in response to its action.

The second potential measure is a land transfer tax levied on the purchaser. Ontario currently has such a tax in place, with rates at the levels of: 1/2 of 1% on transfers of properties valued at up to $55,000, 1% on properties valued at $55,000 to $250,000, and 1-1/2% on single family dwellings or duplexes valued at more than $250,000. To determine with some accuracy the potential revenue of applying a similar tax in Manitoba, the estimated average annual transfer value in each category ($0 - $55,000; $55,000 - $250,000; $250,000 and over) would have to be known. That information is not available on a province-wide basis. However, if each of the estimated 100,000 transactions annually has an average value of $50,000, a 1/2% tax should net the province $25 million in additional revenues and cost the average purchaser $250. The appeal of such a tax would be its rough application to wealth. Imposition at a higher rate (eg. 1%) might be acceptable if it replaced the existing basic fees charged by Land Titles. Graduated rates such as Ontario's would be progressive and could be further considered.

LOTTERY PRIZES

The special tax exemption on lottery winnings has recently come under discussion in Ontario. An Ontario study on tax expenditures in that province estimated that taxing lottery winnings as income would return $72 million per year to the Ontario Treasury.

LOTTERY REVENUES

At present, lottery revenues do not flow to the Province's Consolidated Revenue. This is due to the relatively recent government management of the total gambling industry and the pre-existing allocations of revenues from that industry to a wide variety of community-based organizations. Total lottery revenues have grown at a much more rapid rate than other government revenues. The result has been a rapid growth in revenues for those particular activities and organizations funded by the Manitoba Lotteries Foundation. For example, in 1984-85, Lottery Foundation revenues increased to $65 million and profits increased to $22.86 million -- an increase of 45 percent as compared to growth in total government revenues of 6.1 percent between 1983/84 and 1984/85. While basic necessities such as health and education have been receiving moderate increases, other activities have had dramatically more rapid revenue increases due to the lottery source of their funding and for no other reason. This reality would seem difficult to explain rationally .

Reform to address this situation should be considered.

CROWN CORPORATIONS

A wide array of differential tax treatment exists for the various Crown Corporations. For example, the Manitoba Public Insurance Corporation pays Corporation Capital Tax while Manitoba Hydro and the Manitoba Telephone System are currently exempt. On the other hand, a 6% tax is levied on hydro and telephone bills but not on automobile insurance premiums. More consistent treatment should be considered. In particular, the extension of the Corporation Capital Tax to all Crown corporations and the indexation of Water Power Rentals could be sources of increased revenue.

Crown Corporations	Tax on Goods/Services	Corporation Capital Tax	Other Charges Or Items
MANITOBA HYDRO	6% Revenue Tax	EXEMPT	Water Power Rentals to Province.
MANITOBA TELEPHONE SYSTEM	6% Revenue Tax	EXEMPT	
MANITOBA PUBLIC INSURANCE CORPORATION	EXEMPT	TAXABLE	Insurance Corp. Tax (on all premium income.)
MANITOBA LIQUOR CONTROL COMMISSION	12% SALES TAX	TAXABLE	Net Profits to Province

LUXURY TAX

The Working Group discussed possible luxury tax options or a higher rate of Sales Tax on luxury goods. For a variety of reasons, both conceptual and administrative, this idea was not pursued further.

TAX EXPENDITURES

An emergent and extremely important issue in tax policy is the prevalence of tax expenditures. Simply stated, tax expenditures are deviations from a broad tax base which forego the collection of taxes otherwise due. In a recent report, the Auditor General of Canada estimated that 35 to 50 billion dollars of tax expenditures existed in the Federal taxation system.

At the Provincial level, the Manitoba Government published a list of tax expenditures in its 1986 Budget and Saskatchewan published its own slightly different list in 1985.

In its 1986 review of tax expenditures, the Manitoba Department of Finance compiled the following analysis of the magnitude of direct expenditures vs. tax expenditures in the 1983 - 85 period.

MANITOBA
DIRECT EXPENDITURES AND TAX EXPENDITURES
BY EXPENDITURE CATEGORY, 1983-85

($ Millions)

EXPENDITURE CATEGORY	DIRECT EXPENDITURES			TAX EXPENDITURES		
	1983	1984	1985	1983	1984	1985
Education	618.6	654.4	663.3	6.2	7.3	7.5
Health	1,023.1	1,082.0	1,136.4	12.8	14.5	15.7
Economic, Social and Employment Security	472.7	515.6	566.9	262.6	273.0	282.0
Economic Development	602.5	600.6	593.2	270.5	305.9	296.7
Direct Local Government and General Government Services	327.8	339.4	395.5	0.1	0.1	0.1
Other	282.0	265.7	263.0	1.0	1.1	1.1
TOTAL	3,326.7	3,457.7	3,618.3	553.2	601.9	603.1

As could be seen in this chart, the totals for tax expenditures are significant, amounting to nearly 14% of direct expenditures.

A careful review underscores the major concern about the nature of tax expenditures. Because for the most part they are buried in the legalese and fine print of tax legislation, tax expenditures do not receive the same intensity of legislative or parliamentary scrutiny as direct expenditures. Often they are completely apart from the estimates review process which, at least provincially, has the capacity and frequently the perseverance to question tiny direct expenditures. Were tax expenditures capable of being scrutinized effectively the public policy concerns about them would be greatly reduced.

THE FEDERAL-PROVINCIAL RELATIONSHIP

Revenue received by the Provincial Government from the Federal Government takes several forms, including:

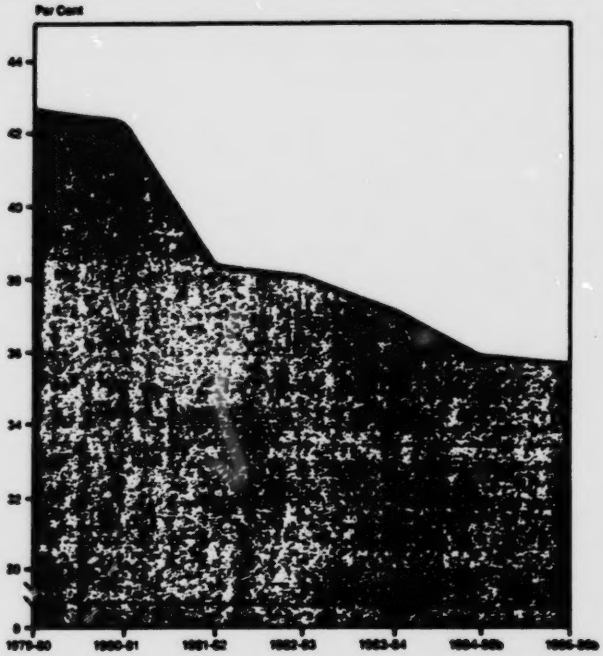
		1986/87
o	Shared Cost Programs	$232.0 million
o	Equalization	$510.8 million
o	Established Programs Financing (EPF)	$434.0 million

In addition, the Federal Government collects Provincial Corporate and Personal Income Tax without administrative charge to the Province.

In total, the Province receives 35% of its revenue from the Federal Treasury. Recent trends have been towards a decline in the Federal share.

Federal Transfer Payments to Manitoba, 1979-80 to 1985-86

Percentage of Total Provincial Revenue



b—budget

Source: Manitoba Department of Finance

CURRENT FEDERAL INTENTIONS REGARDING TAX REFORM

Since Finance Minister Wilson's summer tax reform announcement, the Federal Government has added a third element to the two reforms already underway. In addition to the reviews of the Federal Sales Tax and the Corporate Income Tax already in progress, a review of the Personal Income Tax system will now be undertaken. Current indications are that the three components are now seen as a "package" to be unveiled together although not necessarily implemented simultaneously.

The federal work is at various stages of preparedness. The Business Transfer Tax which will replace the existing Federal Sales Tax is designed and only requires final decisions on rate levels.

The Provinces might be offered a share in Business Transfer Tax revenues if they agreed not to occupy tax room created by the Federal Government lowering personal income tax rates. This proposal might have the positive result of reversing the trend of a shift in tax burden from corporations to individuals. However, it would do nothing to remedy existing inequities in the corporate and personal income tax systems. Without knowing the amount of net incremental revenue available to the Province it is difficult to come to a conclusion on this aspect of the Federal reform. A major "hidden" tax such as the Business Transfer Tax certainly is at best a mixed blessing, with its lack of visibility more pleasant for its sponsors than for Canadians generally.

EQUALIZATION

One of the most important financial bonds of the Canadian Confederation is the principle of Equalization. Enshrined in Section 36 of the Canadian Constitution, the intent of equalization is to ensure that provinces have sufficient revenue to provide reasonably comparable levels of services to Canadians living in the divergent regions of our nation at reasonably comparable levels of taxation. First advocated by the Rowell-Sirois Commission the principle has been widely, if not universally, accepted in Canada. Now the debate is over the reality of equalization as delivered by the program and formula. Subject to Federal-Provincial negotiation and general consensus, if not unanimity, the basis of the equalization formula had broad support until the 1982 amendments by the Federal Government. Proceeded with unilaterally, the new Federal formula eliminated the all-province national average and implemented a so-called "representative average" of only five provinces (B.C., Saskatchewan, Manitoba, Ontario and Quebec).

Concern and vigorous protest by the Provinces over the impact of this change caused the Federal Government to cushion the impacts by putting in place transition arrangements .

Manitoba faced the largest percentage cut in its support level. As a result, the Province mounted a most vigorous and eventually successful effort to have transitional assistance extended.

Equalization is of vital importance to Manitoba, comprising about 15% of of total revenue and over 40% of total Federal transfers to the Province. Manitoba will need to remain a vigorous proponent of an equalization formula which is consistent with this principle.

Under the 1982 changes, Manitoba was the Province "hardest hit." This situation has been ameliorated by temporary supplementary payments; however, a change in the formula will be required to maintain both the principle and the reality of equalization.

ESTABLISHED PROGRAMS FINANCING

The findings of this review are entirely in harmony with Setting Priorities Straight - Manitoba's Position on Federal Reductions in Funding Health and Higher Education published by the Province in June, 1986. The Working Group concurred with the paper's conclusion:

> *"Bill C-96 will deeply and adversely affect provinces' ability to sustain services. Its introduction clearly suggests to provinces that the unilateral actions so deplored in previous administrations can be expected to continue in this one. It also sets the stage for acrimonious debate on many aspects of the "Nielsen Report". But, most of all, it is unnecessary. The federal government has moved to secure $35 billion in new tax revenues by 1990/91. At present, some 11.1% of federal revenue goes to health and higher education. If only 10% of the new funds were so allocated, needs could be met and cooperation in trust would be once again possible. The Government of Manitoba therefore calls upon your Committee to recommend the removal of Bill C-96 and its replacement with federal leadership, planning and fair federal funding for health and higher education."*

THE MUNICIPAL INTERFACE

Over and above the tax credit payment programs, the Manitoba Government's primary means of transferring revenues to the local government level has been the Provincial-Municipal Tax Sharing arrangement, which in 1986 involved total payments of $35.5 million.

Other major transfers of funds to local governments are the $47.6 million in operating and capital grants paid to the City of Winnipeg, the $24 million paid as grants to municipalities in lieu of taxes (which are supplemented by similar payments made by provincial Crown corporations), and the $14 million Local Government General Support Grant.

Added to the cost of the property tax credit programs, these transfers total more than $200 million in 1985-86. The most significant potential for major changes involves the property tax credit programs.

The current system of property tax relief provided through the tax credit programs represents a significant reduction in effective property and school tax burdens for all groupings of households and is quite progressive in its overall impact. The cost of the program is projected to be $85.5 million in 1987-88: $75.5 million through the Resident Homeowners' Tax Assistance Program ($325 minimum credit) and $10 million through the Pensioners' School Tax Assistance Program (up to $175 additional relief).

The Province's options for reducing this program cost must be reviewed in the context of the impact of reassessment, particularly the impact in Winnipeg. Although the City of Winnipeg will be empowered to cushion the impact (i.e. through the application of measures to avoid the transfer of tax burden from commercial to residential property), it is not clear that the action taken by the City will be sufficient for all homeowners facing a significant property tax increase. Reduction or elimination of the minimum $325 credit will translate into a significant tax increase, especially when combined with any increases resulting from reassessment.

The options for cost reductions in the area of municipal transfers are significant in both number and impact. The most acceptable of these appears to be a reduction of the $325 minimum to a lesser amount. The potential savings to the Province are in the range of $7 to $22 million per annum. Reduction in the minimum is the least regressive of the available options.

REFORMING THE INCOME TAX SYSTEM

CORPORATE INCOME TAX

The major findings on the Corporate Income Tax are that the absence of a sufficiently broad-base and a myriad of special preferences are major problems. As noted in a recent report:

> *"Tax Probe '86's major conclusion from its series of hearings is that Canada's existing corporate tax system is a chaotic, unsystematic, unplanned, ad hoc collection of subsidies, loopholes, rate exemptions, special credits and special allowances which defies logic and all but beggars description. This may seem like a harsh and, perhaps, overly partisan judgement, but it is one which has been reached not just by us, but by virtually all the tax experts and interested groups to whom we spoke.*
>
> *The corporate income tax system's primary role as a generator of revenues with which to pay for government services has been undercut, particularly since 1971, by a proliferation of tax expenditures, by which we mean special provisions for rate reductions, exemptions, deductions and the like which have involved a loss of public revenues which would otherwise have been collected and thus deserve to be analyzed and justified in the same way as normal, budgetary expenditures.*
>
> *Many of these special measures were designed to stimulate investment -- and hence growth and jobs -- by reducing the real cost of new capital spending by corporations -- but it is clear from evidence gathered by Tax Probe '86 that few, if any, criteria exist to judge whether such measures have worked. There is, indeed, considerable evidence to the contrary, and we have found that there is now a surprisingly broad consensus among tax experts and businessmen that we need a simpler and less discriminatory system which would allow "the market" rather than the tax system to determine appropriate levels of investment...*
>
> *...A surprising preliminary conclusion to be drawn from the Tax Probe'86 hearings on the corporate tax system is the near unanimity that the many changes introduced since 1972 have not well served the stated objectives of building a more productive and dynamic economy with high and stable levels of employment. We found few -- we could say no -- defenders of the existing system. Indeed we have had great difficulty finding a tax expert or businessman willing to defend a single existing corporate tax expenditure program."*

PERSONAL INCOME TAX

The Provincial Income Tax of 54% (2.2% for municipal purposes) is levied on the base of Basic Federal Income Tax payable. Therefore, any exemptions, deductions or credits against Federal Income Tax implemented unilaterally by the Federal Government affect the Province's revenues.

Often the philosophical basis for new Federal tax measures is not shared by the Province and the revenue loss disrupts the Province's ability to manage its fiscal situation.

There are a number of Federal Personal Income Tax measures which reduce Provincial Revenues and are not compatible with the Province's views on tax fairness and equity. These include:

Exemption For Capital Gains

The Federal Government in its 1985 Budget introduced an exemption from income taxation for capital gains. The exemption is to be phased in over six years to reach $500,000 in 1990. Capital gains above the exemption level will continue to be taxed at 50% of the rate applicable to earned income. The cost to the Provincial Treasury is estimated to be $26.1 million in 1986. Due to the phase-in of the $500,000 exemption the cost in later years will likely be substantially higher. The inequity in the measure is evident and favours wealthy investors over other tax filers.

Scientific Research and Development Tax Credit

Although the "quick-flip" aspect of this provision which caused the worst abuses has been eliminated, the S.R.T.C. must be regarded as the most blatant recent example of the folly of Federal tax expenditure policy. Current estimates place the total cost at several billion dollars with a great deal of the subsidy flowing to office buildings and luxury automobiles rather than research and development. As the Federal Auditor notes, "The revenue drain associated with the Scientific Research Tax Credit was fuelled by taxpayers who bore little or no risk."

Non-taxation of one-half capital gains income realized after 1971

This provision had a cost nationally as follows:

1979	$570 million
1980	750 million
1981	570 million
1982	265 million
1983	440 million

In a five year period some $2.6 billion dollars of tax expenditure nationally resulted from this single provision.

These are but three examples, however blatant, among dozens that could be cited. All have the same derivation and motive noted early in this Report - the attempt to achieve investment stimulus objectives through the tax system. Equally clear is the Auditor's assessment of the inefficiency and lack of accountability which is a consequence of these tax expenditures. Of greater concern is the inequity created among taxfilers with similar incomes who, as a consequence of these measures end up paying widely varied levels of tax. As noted in the report, there is also the extremely unfair and regressive expenditure cuts brought about by resultant fiscal pressures on governments.

PROGRESSIVITY

Manitoba's tax system is somewhat more progressive than those of other Canadian provincial jurisdictions. This is due both to a number of elements that allocate a larger share of the tax burden to those individuals and institutions with a greater ability to pay and to tax credits geared to incomes. Some of the elements include:

- MANITOBA PROPERTY TAX CREDIT
- MANITOBA COST OF LIVING TAX CREDIT
- HIGH INCOME SURTAX
- ABSENCE OF MEDICARE PREMIUMS
- ABSENCE OF HOSPITAL USER CHARGES

Of significant concern is the continued improvement of the tax system by the introduction of greater progressivity in any reform measures. To properly measure progressivity of the total impact of various taxes and programs, it is necessary to consider tax back rates or rates of reduction in program benefits as well as marginal tax rates and credits.

RECOMMENDATIONS

The recommendations of this report have at their core the view that Manitoba must strongly advocate the reform of the Federal taxation system. In the absence of success in this pursuit the Manitoba Government will need to both reform and increase taxation within its own jurisdiction to address its fiscal situation while preserving important social and economic services.

The specific recommendations of the report include the following:

MODEL INCOME TAX

- o advocacy of a "model" national income tax system by the Province with features such as a very broad definition of income; minimum corporate and personal income tax provisions; the elimination of a large number of exemptions and deductions; the conversion of other deductions to tax credits.

- the model income tax would have fairness and equity as its organizing principle with the treatment of all income in the same manner as a key operating principle.

The most significant changes that could be enacted in a model income tax system would be the conversion of various exemptions to credits. The enhanced equity possible through such conversions is based on the greater value of existing exemptions to upper income groups. For example a $4,000 basic personal exemption might be worth as much as $1,800 in tax saving to a high income earner and as little as $600 or less to a low income individual. Conversely, a tax credit would be worth more to the low income individual.

MANITOBA STRATEGY ON FEDERAL TAX REFORM

It is recommended that the Manitoba Government approve a positive position on reform of the Personal Income Tax system and Corporate Income Tax system along the lines suggested. (Model Income Tax System). It is further recommended that the Province utilize every available opportunity to present and advocate its view.

Manitoba has articulated its critique of the Federal Government's tax decisions on numerous occasions. Manitoba, in its many statements, has laid the groundwork for concrete proposals for reform of the income tax system - both personal and corporate. Manitoba's views on the need to broaden the base and eliminate tax expenditures has been a recurrent theme. The necessary next step is to articulate the model for a fair and effective taxation system, one which provides sufficient revenues obtained in the fairest possible manner.

INCREASING THE LEVEL OF FEDERAL REVENUE TRANSFERS

It is recommended that the province continue its efforts to reverse the Federal Government's reductions in the Health and Post Secondary Education area. No Province has done more to pursue this issue. The initiative should be continued.

All further opportunities should be pursued on this issue including meeting of Finance, Health, Education Ministers, and First Ministers. As recommended above the development of a parallel and complementary initiative on tax reform should enhance the credibility of the current position by elaborating in even greater detail the sources of revenue available to the Government of Canada. Again the support of other provinces and the broader public will be important elements of a continued campaign.

WEALTH TAXES

In the interests of equity, it is recommended that the Province advocate a joint review of wealth taxes by the Federal and Provincial Departments of Finance as a component of the overall Tax Reform discussion.

OPTIONS TO REFORM CURRENT TAX REVENUE SOURCES

It is unlikely that Federal Tax Reform will proceed at a rapid pace. Because of the divergent philosophies of the Governments of Manitoba and Canada, it is also quite likely that the Federal Tax Reform which does proceed will have somewhat different concerns than treating all forms of income in the same manner and with overall progressivity. To date, the actions of the current federal government in this regard have been mixed . Elimination of the Scientific Research and Development Tax Credit and imposition of an Alternative Minimum Tax are steps which will increase the progressivity of the tax system while the $500,000 Capital Gains Deduction is regressive in its impact. In view of its fiscal situation, it is recommended that the Province consider the following package of tax reform and tax increase options with the objective of raising necessary incremental revenues in the most equitable fashion available.

RETAIL SALES TAX EXTENSION OPTION

It is recommended that consideration be given to extending the Retail Sales Tax to the following services within the Manitoba economy after a careful further review of implications.

- Legal Service Fees
- Accounting Service fees
- Engineers and Architect Service Fees
- Automobile Insurance Premiums
- Personal Care Services
- Domestic and Other Custodial Services
- Management Consulting Fees

Further work is necessary on a number of aspects of this proposal. This work should be undertaken by the Department of Finance, Taxation Division at an early date. The work should include necessary legal drafting.

It is further recommended that consideration be given to extending the Retail Sales Tax to tobacco products to yield an estimated incremental $15 million per annum.

LEVY FOR HEALTH AND EDUCATION

It is recommended that consideration be given to increasing the levy by .5 or 1.0% of payroll. This would yield $82 million per annum (1%) or $41 million (.5%). On a net basis, excluding payments by local governments and the Province itself, $60 million or $30 million in additional revenues would be raised.

The levy has the distinct advantage of being levied on the Federal Government and large corporate employees. It has the disadvantage of being unpopular with small business and potentially a perceived deterrent to job creation by small business. As small businesses are providing 70 - 80% of new jobs in the Province this is an important consideration. For this reason it is further recommended that the current exemption from the levy be increased from $50,000 to $100,000. This would eliminate the levy for more than 3,500 small businesses. The estimated cost of this measure would be $3.0 million per annum.

As the small business sector has been the source of most new job generation and should continue to make a strong contribution to job creation, these changes are intended to assist that job generation.

RETAIL SALES TAX

The Retail Sales Tax should be considered as a potential element of a revenue raising package. Due to the broad exemption of food and some clothing part of the regressive impact of the sales tax has been mitigated. The Cost of Living Tax Credit also provides an offset for many Manitobans.

Of the available revenue sources, only the Retail Sales Tax and the Income Tax offer a sufficiently broad base to generate significant incremental revenues. If the Retail Sales Tax is to be the vehicle for a revenue increase, then it is strongly recommended that an exemption be considered for all clothing and footwear purchases under $300. At a cost of $36 million per annum (8% rate) or $31.5 million per annum (7% rate) or $26.5 million (6% rate), this exemption would represent a somewhat progressive reform of an essentially regressive tax.

An incremental 1 point of Retail Sales Tax and the equivalent change in the rate applied to alcohol would raise revenue of $75 million per annum and 2 points would yield some $150 million.

CHANGES TO CURRENT FEES AND CHARGES

The major requirement is that more consistent attention be devoted to this complex and important area of revenue policy. The Provincial Treasury receives $310 million per year from various fees and charges or about 10% of its total revenue. Quite properly, Departmental personnel most knowledgeable in the specific policy area are the key source of advice on the level of charges. However, they are currently, for many fees and charges, the only source of advice.

It is recommended that one staff analyst within the Treasury Board Secretariat be assigned to fees and charges full time for one year.

It is further recommended that all departmental managers responsible for administering particular fees and charges be given 60 days to report on the full implications of each of the following changes in fee levels.

- complete elimination (administrative savings versus revenue losses).

- maintenance at current levels (degree of subsidization involved).

- increase by 25%.

- increase to equal highest rate charged in another Provincial jurisdiction.

Finally, it is recommended that the results be analyzed and presented in the form of a Report on Fees and Charges in January and that one omnibus increase/reduction/elimination package be approved, to be effective April 1, 1987.

NEW REVENUE SOURCES

NET INCOME TAX

As noted earlier, a tax on net income is one option. The following comparison includes this option versus a sales tax increase versus an increase in the general personal income tax.

The table below shows the approximate impact of a 2 point sales tax increase, a 10 point increase in the general personal income tax rate and the 1987 tax on net income concept.

Income Group ($)	2 Point Sales Tax Increase as % of Income (%)	10 Point Income Tax Increase as % of Income (%)	Net Income Tax as % of Income (%)
Under - 7,500	0.76	0.03	(0.03)
7,500 - 15,000	0.80	0.52	(0.01)
15,000 - 25,000	0.78	0.94	0.79
25,000 - 50,000	0.66	1.25	1.30
50,000 & Over	0.58	1.74	1.49

This table is based on the questionable, though unavoidable, assumption that taxpayers would not make behavioral changes in response to any of the increases, such as the increased use of tax shelters.

For equity reasons, it is recommended that careful consideration be given to this option.

A tax on net income of 2% with the low income offset would yield $115 million of incremental revenue in 1987/88.

LAND TRANSFER TAX

It is recommended that the Manitoba Government consider introducing a tax on the value of land transfers in the province. The tax of 1/2 of 1% of the value of the transfer would be charged to the purchaser and would provide additional revenue in the order of $25 million.

LUXURY TAX

Upon consideration, this concept, while appealing from an equity perspective, has too many definitional and practical difficulties. The most appropriate application would likely be to arbitrarily designate a number of categories of goods as well as price thresholds above which the luxury tax rate would apply. For example -- automobiles over $25,000; jewellery over $2,000; fur coats over $5,000; boats over $25,000.

It is recommended that the concept of a luxury tax not be further considered due to various difficulties that would be encountered in its administration.

TAX EXPENDITURES

It is recommended that the Legislative Assembly consider devoting one day of the eight days of debate on the annual Budget to debate tax expenditures. It is further recommended that the government table a Report on Tax Expenditures annually to serve as a focal point for the debate. It is suggested that this Report be tabled with the Budget.

As well, it is recommended that consideration be given to having sunset clauses in legislation for tax expenditures.

TAX AMNESTY

It is recommended that the Province of Manitoba consider adopting a tax amnesty program in its next Budget for its own taxes. The amnesty program would apply to individuals and small businesses. It should provide a period of time - 3 months - during which taxes under certain Provincial Statutes which have not been paid can be paid with only interest added and not penalties.

British Columbia achieved some success with a similar approach. The B.C. plan encouraged disclosures of taxes which had not previously been declared by taxpayers and forgave penalties on some for a given period. After that period, penalties were increased substantially.

CONSULTATION WITH EXTERNAL GROUPS

In recent years Manitoba Finance Ministers have initiated wide consultations on the overall fiscal situation of the Province and the choices faced by the Provincial Government. This is a welcome and important development. It is strongly recommended that such consultations be expanded and enhanced.

CONCLUSION

There is no magic in tax reform or in the field of taxation - no rabbits - no hats - and no magicians. Raising the revenues necessary for the purposes of sustaining the programs needed and wanted by the people of Manitoba is neither an easy or a popular challenge. No remedy can be fashioned for Manitoba's fiscal difficulties that does not include both reform of taxation and reform of expenditure management. In the absence of progressive and early movement by the Government of Canada on a major reform of the national taxation system which augments Provincial revenues, the Government of Manitoba will also need to increase taxation levels. Fairness must be the guiding principle in reform. Fairness and equity will need to be central in both the expenditure decisions which preserve essential services and in taxation decisions which determine the source of needed revenues.

I. INTRODUCTION

A. The Process and Challenge

In the spring of 1986, the Manitoba Cabinet approved a six month review of the Provincial Government's revenue and expenditure management options, in the context of:

- this government's commitment to greater fairness in both national and provincial taxation, and
- the government's commitment to maintain social and economic services in the face of the growing gap between revenue growth and expenditure growth.

Undertaking the review was a working group of provincial officials chaired by Michael Decter:

Working Group on Tax Reform

Mr. Michael Decter (Chair), Managing Partner of the October Partnership
Mrs. Donna Larsen, Director of Financial and Program Analysis, Economic Resources Investment Committee/Jobs Fund Secretariat
Mr. Pat Gannon, Assistant Deputy Minister for Federal-Provincial Relations, Manitoba Finance
Mr. Jim Eldridge, Secretary to Cabinet for Inter-governmental Affairs
Mr. Art Roberts, Assistant Deputy Minister for Taxation, Manitoba Finance
Mr. Ed Robertson, Deputy Minister of Manitoba Industry, Trade and Technology
Mr. David Woodbury, Special Advisor to the Minister of Finance

The Working Group reported to a Special Ministerial Committee chaired by the Minister of Finance:

Special Committee on Tax Reform and Expenditure Management

Hon. Eugene Kostyra (Chair), Minister of Finance
Premier Howard Pawley, Premier
Hon. Vic Schroeder, Chairperson of Economic Resources Investment Committee of Cabinet
Hon. Muriel Smith, Chairperson of Social Resources Committee of Cabinet
Mr. Harvey Smith, M.L.A., Legislative Assistant to the Minister of Finance
Mr. David Woodbury, Special Advisor to the Minister of Finance
Mr. George Ford, Clerk of the Executive Council
Mr. Charles Curtis, Deputy Minister of Finance

The Special Committee approved the following objectives for the review:

1. To review the revenue sources available to the provincial government, both current and potential, and consider their role in making the Manitoba levy of taxes, fees, and charges as progressive and fair as possible.

2. To recommend options for revenue changes which would improve the progressivity of taxes, fees, and charges levied by the provincial government.

3. To identify options for overall revenue increases which would reduce the current and projected gap between expenditure commitments and the province's revenue base, and to note the advantages and disadvantages of each option.

4. To review relevant aspects of the current and evolving federal taxation system and --

    (a) identify options for improvements, particularly with respect to progressivity issues; and

    (b) identify actions which the Manitoba Government may want to take to offset or complement federal initiatives.

5. To review the provincial government's tax expenditures and recommend measures to improve the allocation of and accountability for such commitments.

6. To review the issue of income tax collection with a view to recommending improvements in the current system.

The groups commenced operations in June and met through to mid-November. Their discussions and review of material included consideration of a broad range of issues relevant to both tax reform and expenditure management.

Over the past six months it has been a tremendous source of strength to this review to have the talents and insights of the members of the Working Group on Tax Reform. Their efforts have greatly assisted in the preparation of this report. However, responsibility for the recommendations must rest with the Chairman of the Working Group.

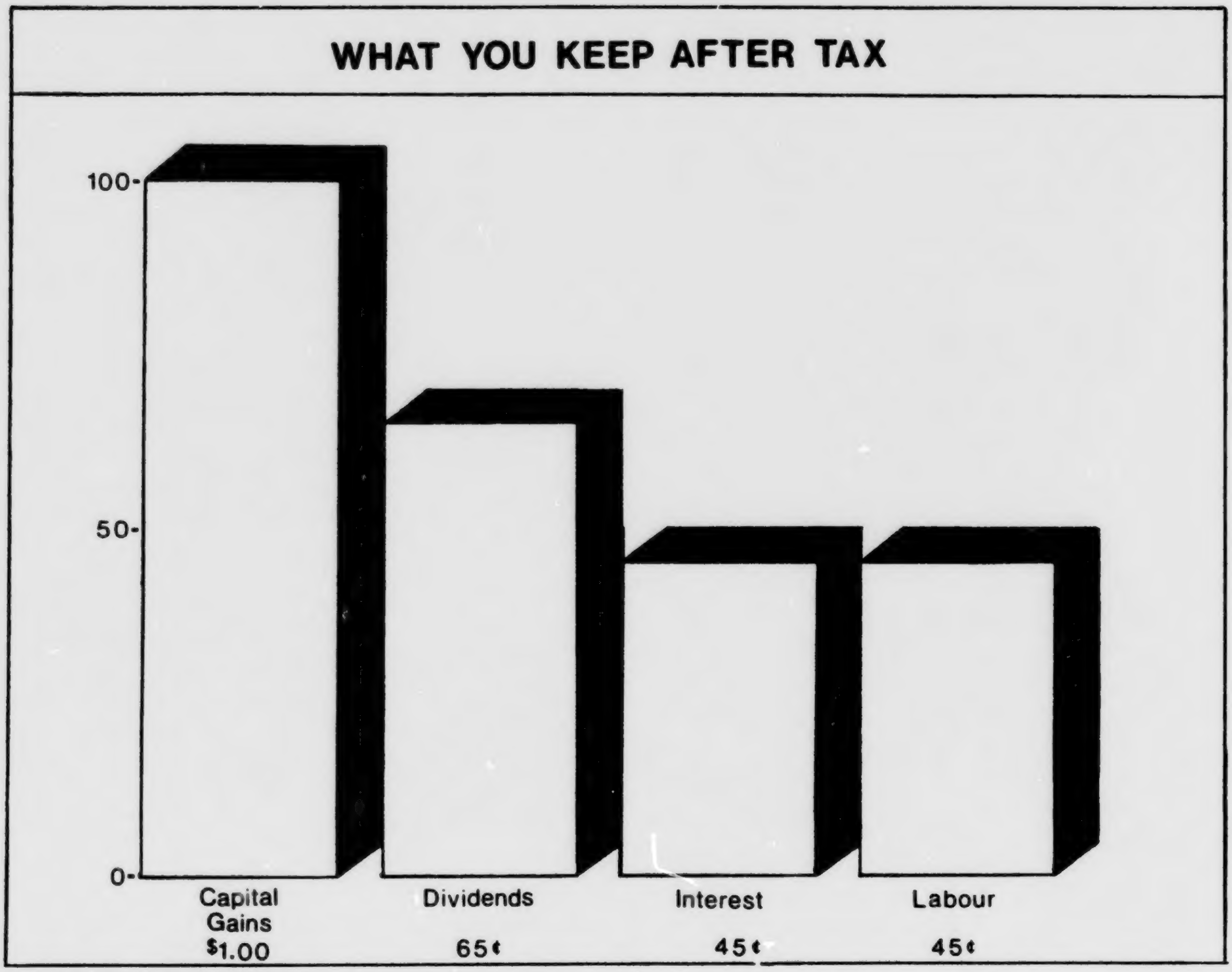
It should also be noted that the statistical information utilized throughout this report is generally accurate as of November 1, 1986.

B. The Context

In the past year, Canadians have witnessed an extreme example of the farcical aspect of the Canadian tax system. Arguably the wealthiest family in Canada -- the Reichmans -- in their corporate acquisition of Gulf Canada were able to legally avoid at least $600 million in tax liability. This amount represents about $50 per taxpayer in Canada. In short, a transfer from all tax filers to the very wealthiest. No blame should accrue to the Reichmans for their actions. Certainly they are beneficiaries, but they are also prisoners, of an unjust and unfair taxation system, as are millions of ordinary Canadians. Why is our taxation system so far from the principles of equity, fairness and ability to pay that should be at its core? How have we allowed it to become a force for inequality within our nation?

The most straightforward answer is that the tax system has been burdened over the past decade with a wide variety of other objectives -- to stimulate investment in rental housing -- to prompt research and development -- to aid the film industry -- all distortions, which have enabled, no -- encouraged, wealthy individuals to avoid their fair share. The basic objectives of equity and revenue raising have been lost as organizing principles of the tax system. If they are to be restored, and it is essential that they are restored, then significant reform is necessary. For equity to be re-established there must not merely be a closing of the most obvious "loopholes" or "incentives" but a fundamental decision to treat all forms of income on the same basis, regardless of source, and to apply a progressive tax structure to the broadened base achieved.

The following chart illustrates how far we are from treating all forms of income on the same basis. The chart shows that $1.00 of capital gain income allows you to keep the whole $1.00 after-tax, compared with $0.65 of dividend income, $0.45 of interest income, and $0.45 of labour income.



Assuming top marginal rate in 1987.
Lifetime maximum of $500,000.

Another way of viewing current inequities is to note that in 1983, 85% of labour income was assessed for tax purposes while less than 45% of investment income entered the tax base.

Despite the passage of years, the Carter Commission advice in this policy area is as wise and persuasive as when it issued forth in 1966. The perversions and labyrinths which have been afflicted upon the income tax system in the interim only serve to underscore the enormous common sense and sanity of Carter and his colleagues --

> *"The present system does not afford fair treatment for all Canadians. People in essentially similar circumstances do not bear the same taxes. People in essentially different circumstances do not bear appropriately different tax burdens.*
>
> *Canadians are less well off than they could be because there are fewer goods and services available than could be provided with the more efficient use of labour, capital and natural resources. The present tax system has contributed to this unfortunate result in two ways:*
>
> *a. It needlessly distorts the distribution of productive goods and services.*
>
> *b. It fails to compensate where it could for some non-tax barriers to the efficient allocation of productive goods and services.*
>
> *When faced with these hard choices we have consistently given the greatest weight to the equity objective. Taxation is one method of transferring command over goods and services from individuals and families to the state. If equity were not of vital concern taxes would be unnecessary. The state could simply commandeer what it needed. The burden of a reduced private command over goods and services would then be borne by those individuals and families who happened to be within easy reach of the state.*
>
> *The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair, the social and political fabric of a country is weakened and can be destroyed. History has many examples of the severe consequences of unfair taxation. Should the burden be thought to be shared inequitably, taxpayers will seek means to evade their taxes. When honesty is dismissed as stupidity, self-assessment by taxpayers would be impossible and the cost of enforcement high. We are convinced that scrupulous fairness in taxation must override all other objectives where there is a conflict among objectives."*

The tendency to burden the taxation system with additional objectives is both understandable and pervasive. As a major instrument of public policy it would be difficult to imagine it in isolation of the social and economic objectives of the government. Where a deeply held view in the society has been translated into tax policy - for example the worth of charitable donations - there is little prospect of a consensus for change. A number of examples of this type of exemption or deduction can be identified in the taxation system as it exists. These are not the areas of attention for tax reform. Rather, it is the overuse or abuse of the system by its excessive distortion for stimulation of particular types of investment and the type of imperfections that allow the avoidance of taxation in the Gulf deal which require remedial action.

No single instrument of public policy can be effectively utilized to simultaneously achieve a wide array of different objectives. Yet this is precisely the dilemma of the taxation system. The most obvious evidence of the damage to the fundamental objectives of revenue raising and fairness are the extreme examples of unfairness and the massive deficits faced by Governments across Canada. Horror stories about the misuse of the Scientific Research and Development Tax Credit provision are not merely the consequence of an ill-drafted tax provision but more properly the consequence of utilizing the tax system for too many objectives at the same time.

A further and more recent inequity is the differential impact of expenditure reductions. Not only does the taxation system fail to collect revenues on a broad ability to pay basis but cutbacks tend to be a greater burden on low and middle income groups. This compounds the taxation system's unfairness.

As was concluded by Kenneth Carter two decades ago, this examination of taxation concludes that fairness must be the overriding objective within our tax system.

II. EVOLUTION OF THE REVENUE BASE

The own-source revenue of the Manitoba Government has grown dramatically from its modest beginnings of a few hundred thousand dollars annually. As recently as the 1940's specific provincial tax measures were small in number and financial impact.

Apart from income taxation, the first notable tax intervention that plays a major role in the current revenue mix was the introduction of the gasoline tax in 1923. Revenue from this tax has grown from less than $10 million in the mid-1950's to an estimated $115 million in 1986-87.

Since 1960, there have been a total of ten tax measures introduced or revised, the most significant of which were first imposed in 1963, 1967, 1969, 1975, 1976, and 1982;

1963 - Tobacco Tax: revenue impact has grown from less than $3 million initially to almost $100 million estimated for 1986-87.

1964 - Revenue Tax: revenue impact has grown from less than $2 million when introduced to over $30 million for 1986-87.

- Motive Fuel Tax: replaced the 1945 Motive Fuel Users Act; revenue impact has grown from less than $5 million initially to more than $60 million in 1986-87.

1967 - Retail Sales Tax: a major impact when introduced at $60 million in revenue; growth to more than $465 million estimated for 1986-87.

1969 - Medicare Premium: introduced in April 1969 as a charge over and above the Hospitalization Premium in effect since 1959; together the fees totalled rates of $8.50 for singles and $17.00 for families. However, the change in government in 1969 brought a reduction in rates to $4.15 and $8.30 in November of that year and an elimination of the charges in 1973. In its peak revenue year of 1972 the joint fee raised $29.3 million.

1972 - Mineral Acreage Tax: never a significant revenue impact, and no longer a source of provincial income.

- Succession Duty Tax: at its peak revenue point before being eliminated in 1977, this tax brought in less than $10 million.

1975 - Mining Tax: Replaced the 1933 Mining Royalty and Tax Act; this has grown from a $7 million base in 1975 to the current $35 million estimated for 1986-87, but with massive fluctuations (e.g. from $23 million in 1980-81 down to $9 million in 1981-82 and down again to $200,000 in 1982-83).

1976 - Corporation Capital Tax: revenue impact has grown from $10 million when introduced to the estimate of $41 million in 1986-87.

1982 - Health and Post-Secondary Education Tax Levy: this has grown from $55 million from the first (partial) year to the $123 million estimated for 1986-87.

As clear from the above display, the most dramatic revenue increases were gained from the taxes on tobacco and retail sales and from the levy, three measures which are now responsible for 36% of the total estimated (1986-87) $1.9 billion in revenue from taxation. The largest contribution (46%) to taxation revenue is from the Corporation and Individual Income Taxes, which are estimated to have a collective impact of $866 million in 1986-87.

In addition to the province's taxation measures, other sources of revenue have evolved in the area of fees and charges for a variety of government-delivered services. The major items in the fees and charges area, which should total $310 million in 1986-87, are land titles fees ($11 million), the Liquor Control Commission revenues ($145 million), automobile and motor carrier licences and fees ($30 million), drivers' licences ($6 million), water resources charges ($31 million), and parks fees ($5 million). Capital-related revenues are estimated at $7 million in 1986-87.

Revenue from the Government of Canada includes $232 million for a range of capital shared-cost and other programs, $510 million for equalization, $434 million for established programs financing, for a total of $1.2 billion in 1986-87. This represents 35% of the projected total revenues of $3.4 billion in 1986-87 compared to the provincial own-source revenue level of 65%.

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	Preliminary Actual 1985/86	Budget 1986/87	% Change 1979/80 to 1986/87
Federal Transfers $ millions	771.6	834.0	837.5	919.4	1,037.9	1,097.6	1,105.3	1,176.8	52.5
Total Revenue $ millions	1,806.0	1,968.4	2,180.8	2,409.0	2,797.2	2,924.6	3,115.5	3,380.2	87.2
Transfers as % of Total Revenue	42.7	42.4	38.4	38.2	37.1	37.5	35.5	34.8	<7.9>

*As portion of total revenue.

Source: Public Accounts, Financial Reports, 1986/87 Budget.

The reducing federal share of the cost of Manitoba government operations presents major difficulties for the province, especially considering the importance of federal contributions in supporting just the priority core programs of government. The $1.2 billion total federal transfer for 1986-87 is roughly equivalent to the provincial expenditure on health care programs alone.

The evolution of the province's revenue base is clearly going to continue in the context of a number of distinct trends and adjustments:

a. diminishing federal contributions;

b. increased reliance on provincial own-source revenues;

c. necessary enhancements to the provincial own-source revenue base.

III. THE ECONOMIC ENVIRONMENT

A. Service Based Economy

In examining the economic transformation of the Manitoba economy over the past several decades, the Working Group was greatly assisted by studies done by the Manitoba Department of Industry, Trade and Technology and the Government of Ontario.

The overall trend to a service dominated economy is evident in the following summary chart of Labour Force By Sector which traces the growth of service sector employment from 37.6% of the total in 1951 versus 24.8% for manufacturing in 1951 to 58.3% in 1981 versus 18.5% for manufacturing in 1981.

Labour Force By Sector (% of Employment)

Census of Canada
Historical Statistics of Canada

	1931 %	1941 %	1951 %	1961 %	1971 %	1981 %
Agriculture	29.9	27.0	16.7	10.4	5.9	4.3
Forestry	1.3	2.2	2.5	1.6	0.9	0.8
Mining	1.8	2.2	2.0	1.9	1.6	1.7
SUB-TOTAL	33.0	31.4	21.2	13.9	8.4	6.8
Manufacturing	16.9	21.9	24.8	21.8	19.8	18.5
Construction	6.4	5.2	6.6	6.4	6.2	6.3
Transportation, Utilities, Communications	7.6	6.9	8.5	8.0	7.8	7.8
SUB-TOTAL	14.0	12.1	15.1	14.4	14.0	14.1
Trade	10.8	11.8	14.1	15.3	14.7	16.7
Services	15.5	16.2	14.8	19.5	23.6	29.0
Finance	2.4	2.1	2.7	3.5	4.2	5.2
Public Administration	3.0	3.3	6.0	8.2	7.4	7.4
SUB-TOTAL	30.7	33.4	37.6	46.5	49.9	58.3
Unspecified	4.3	1.1	1.3	2.4	7.9	3.4

Within the dominant service sector there have been more precise trends evident. Growth in public sector employment which was rapid in the post-war period has plateaued in the past decade. Service sector employment growth in the past 15 years has been concentrated in the emergent information sector.

A May 1986 Ontario Study reached the following conclusions which are generally applicable to Manitoba --

- The emergence of the service sector as the largest component of our economy is the key element of a socio-economic transformation as fundamental as the earlier transition from agrarian to industrial economies.
- The growth of the service sector is not a new or sudden phenomenon. Rather, it has been a steady progression over decades.
- The emergence of the service sector as the largest component of our economy appears irreversible. Consequently, it is not useful to debate whether the shift to a "service economy" is desirable; it is already an inescapable fact of life.
- It has been estimated that 80 percent of new jobs in Ontario over the next decade will be in the service sector.

The Ontario study reaches several other useful conclusions on the nature of service sector growth and development:

a. Setting aside social services, public administration and defence, which are not market commodities in the same sense as other services, the picture of service sector growth in Ontario is shown as follows:

	1941-1981	1978-1983
Intermediate Services:	395%	8.8%
Final Demand Services:	210%	4.7%

b. These findings show that the widespread perception of service sector growth as mainly a proliferation of such establishments as fast-food outlets and dry cleaners is a myth. In fact, labour force participation in mainly consumer services had the service sector's slowest rate of growth between 1941 and 1981.

c. Data on personal expenditures on goods and services in Ontario confirm that the growth of the service sector is not due in any large measure to a shift in consumer purchases from goods to services.

d. The shift to a service economy does not mean that services are replacing manufactured goods, any more than the emergence of industrial society eliminated the production of agricultural commodities.

e. It is also important to note that the shift to a service economy or "post-industrial" society is not at all synonymous with concepts of an "information society". While recent developments in information and communications technology undoubtedly support and accelerate the further growth of services, the transition to a service economy began at least in the 1940s and was well established before the new information technologies were a major factor.

f. The service sector has several distinctive characteristics that should be taken into account in the formulation of appropriate public policy:

  - In manufacturing, the most important inputs are capital and raw materials; in most service industries, the most important inputs are people and knowledge.
  - In manufacturing, technological change is primarily embodied in capital equipment; much of the service sector is characterized by labour-embodied technological change. In service fields technological change is more likely to be accomplished by retraining or by the hiring of new graduates.
  - The service sector has a much stronger small business orientation than does the manufacturing sector. Firms with fewer than 20 employees account for 89.8 percent of all firms in the service sector; the comparable figure in the manufacturing sector is 65.5 percent.
  - Employment growth in the service sector is largely due to entrepreneurial activity -- that is, the birth of new firms -- rather than the expansion of existing businesses.
  - The service sector provides much more flexible employment than does manufacturing. There is far higher incidence of part-time employment, and it is easier to leave and re-enter the labour force.

From a taxation perspective, the implications of a shift from a goods-based to a services-based economy include a number of possible difficulties. To list a few:

- The business owner will be somewhat different
  - more likely an owner-manager;
  - more likely a citizen of Manitoba;
  - more entrepreneurial and less receptive to taxation.
- The business will be smaller -- making the taxation treatment of small business more significant from a fiscal perspective.
- The distinction between personal and corporate enterprise may increasingly be more difficult to make -- perhaps increasing the need for the integration of corporate and personal taxation.
- The number of businesses will increase as small business becomes a larger proportion of total business. This may increase:
  - the unit cost of collecting taxes;
  - the political effectiveness of business on taxation matters.
- The life cycle of businesses may tend to shorten -- increasing the costs and complexities of collecting taxes.
- The number of incorporations may proliferate if there is a greater tendency for individuals in the service sector to divide different functions or lines of activity to separate companies.
- Many services will be for instant consumption and have no "shelf life". Taxation measures related to inventories will become relatively less important.
- A growing inability to store output may reduce business responsiveness to fiscal stimulation.
- As the "knowledge" component of industry grows the relative importance of plant and equipment will decline. Taxation measures related to fixed assets (e.g. investment tax credits, depreciation allowances) will become less relevant.
- As inventories and fixed assets decline in relative importance the accrual system for calculating income will become less important.
  - taxes increasingly will bear a closer relationship to annual cash flow;

  - the focus of taxation will increasingly center on a single year.

- The nature of what is being taxed will be increasingly intangible and, as such, more difficult to assess and more elusive.

  - distinctions between profit and non-profit activities may be more difficult to make;

  - opportunities to escape taxation through the bartering of services may increase.

- An increasing proportion of "value-added" may escape taxation (subject to a business transfer tax or other value-added measures).

- A growing proportion of the taxbase will be "footloose"-- both firms and key employees.

- Comparative advantages between regions may tend to level out -- possibly making business location decisions more sensitive to differences in taxation.

- If structural shifts and technological change put pressure on wages, this, plus the increasing proportion of smaller (owner-operated) firms in the economy could serve to increase the share of investment income in total income.

- Over the long term the distinction between production and consumption may be much more difficult to make. This could have wide ranging implications for taxation and income distribution.

Because of these shifts toward services, the concept of broadening the taxation base and re-establishing a concern with equity are augmented in importance. As the number of business entities proliferate and the number of self-employed individuals increases the essential need to treat different forms of income equitably will also increase. Without a broadly based tax system, inequities will abound.

The following excerpt from a recent Canada Tax Foundation study on the retail sales tax addresses the issue.

"Official committees of inquiry have stated that sales of services offer a fruitful but untapped field for sales taxation. Consumers' incomes are spent on both goods and services, and in the logic of sales taxation, there is no reason to tax one and not the other. Expenditures on services have been increasing relative to those on goods in recent decades, and since the income elasticity of demand for services tends to be high, taxation of services seems to offer governments a larger share of rising incomes than they would get by taxing goods alone. A closer examination of the service industries calls for some modification of this rosy view, however.

The principle was established earlier that on efficiency grounds, sales taxes should be confined to final products since taxing intermediate products could result in multiple taxation and the misallocation of resources. It is intermediate services, however, that have made up the main growth in services, not the traditional consumer services. The largest growth has been in the "community, business, and personal services" industrial group, but only a small proportion of this would be in services that are unambiguously consumer services. The growth in expenditures on services has been mainly in services to producers; in mixed services, where separation of total transactions into producers' and consumers' transactions would be impracticable; and in services like education, health care, and public administration, where the exchanges take place outside the market and are therefore not accessible to a tax based on market valuations. The services that fall within the range of feasible taxation not only comprise a small proportion of the service sector, but also tend to be undercapitalized, low productivity industries that could not carry a very heavy burden of taxes.

The Royal Commission on Taxation recommended extension of the sales tax to services, and many consumer services are taxed in the United States. The principle of taxing services has in fact become well established in Canada, though fewer services are taxed here than in the United States. All the retail sales tax provinces levy taxes on telecommunications and transient accommodation (some under special tax legislation rather than under the retail sales tax), and most provinces levy taxes on admissions to amusements and on some repairs. Gas and electricity, dry cleaning, cable television, insurance premiums, printing, promotional materials, and some rentals are also taxed in some provinces. If all

> *provinces adopted the full range of provincial taxes on services, there would be revenue increases in some provinces, as there would be if the tax were extended to all services within a particular category (for example, taxation of all repairs instead of only a few). If the practices of U.S. states were followed more closely, the retail sales tax might also be extended to travel tickets, installations of appliances and equipment, private club fees, and professional services such as those of architects and accountants and barbers and beauticians.*
>
> *Although the volume of consumer services has grown, the volume of producers' services has grown much more, and the value of producers' services (and hence the value of their potential as a tax base) has increased proportionately even more because of the higher productivity of these services. Taxation of producer services has been largely avoided in provincial sales taxation because of the distortion in resurce allocation that multiple taxation would bring. At the same time, it is recognized that the taxation of business services such as accounting, banking and finance, advertising, computer services, architectural and engineering services, legal services, and rentals of trucks, cars, machinery, and equipment would open up new sources of sales tax revenue. It would also permit tax rates to be lowered, resulting in smaller revenue losses through avoidance or evasion. There is therefore some degree of conflict between revenue and efficiency: if taxation of services is to yield significant revenues, governments will have to be prepared to extend the retail sales tax base beyond pure consumer services. In making their decisions, they will have to make the political trade-offs between the exigencies of their revenue requirements and the additional economic burdens those decisions would impose on the efficiency of provincial industries and the welfare of consumers."*

Is it fair for a self-employed individual to face a more advantageous set of deductions than someone employed by a large organization? Should the change of corporate form allow a vastly altered tax rate? Clearly, if equality is a central objective, the answer must be a more broadly based and fairer tax system.

It is therefore a finding of this review that the shift to a service based economy is a further reason to seek a broader base for both income and consumption taxes. As the nature of wealth shifts from capital assets to knowledge it will be essential that the basis of taxation parallels this shift.

B. Solid Growth Prospects

Manitoba's economy is not immune to the national and international cycles of recession and growth. With the rapid movements of interest rates, commodity prices and the dependence of the larger Canadian economy on trade, we are influenced by the American economy to a tremendous degree. However unpredictable those impacts may be, the next 5 to 10 years in Manitoba offer the prospects of solid, sustainable economic growth. Major investments in hydro-electric development at the Limestone and Conawapa projects and urban redevelopment of the Core Area, North Portage and East Yards areas are likely to underpin a stable period of increasing activity. Despite severe difficulties in the farm and mining sectors the overall prospect is encouraging.

A recent forecast has shown the following economic growth to the year 1991.

ECONOMIC PROJECTIONS TO 1991
(annual percentage change)

	1985	1986	1987	Average to 1991
Real GDP	4.4	3.5	3.0	2.9
GDP	7.7	7.2	6.0	6.1
Wages & Salaries	5.0	7.1	6.8	6.6
PDY	9.3	5.5	5.8	5.6
Real PDY	5.1	1.1	1.5	0.8
Retail Sales	11.0	6.0	6.2	5.3

Source: Based on Statistics Canada historical data and the views of a number of independent forecasters.

Earlier in 1986, the Royal Bank's long-term projections singled out Manitoba's economy as particularly strong:

> *"We expect Manitoba to lead the nation in terms of real growth during the decade to 1994."*

Econoscope, April 1986

Employment growth in Manitoba for most of the 1987 to 1991 period is projected to surpass the national average at an average annual rate of 2.3%, adding roughly 70,000 jobs to the economy by the end of the period.

Of particular note here is the approximately 3% projected annual average rate of growth of real gross domestic product over the next 5 years which should provide Manitoba with a reasonably steady period of economic growth supported by investment and population trends. This outlook is, of course, dependent on relatively stable international conditions.

IV. THE REVENUE MIX

A. Major Current Revenue Sources

1. Individual Income Tax

a. Description and Purpose

- provincial tax on individual personal income levied at 54.0% of basic federal income tax applied against individual income -- includes surtax levy of 20% of provincial income tax payable in excess of $2,600.

b. Exemptions

- provincial tax is reduced to zero where federal tax payable is reduced to zero, phased out at 5¢ for each dollar in taxable income above the level at which federal tax is payable.

c. Historical Information

- revenue impact has grown to an estimated $720 million for 1986-87.

d. Cross-Canada Comparison

- comparable rates are as follows:

Newfoundland	60.0%
New Brunswick	58.0%
Nova Scotia	56.5%
Manitoba	54.0%
Prince Edward Island	52.5%
Ontario	50.0%
Saskatchewan	50.0% (plus 1% of net income)
British Columbia	47.5%
Alberta	43.5%
Quebec	N/A (direct levy against taxable income)

- other differences are evident in the areas of reduction measures for low income taxpayers and surtaxes on higher income earners:

i. **Reductions**

: basic of $260 per taxpayer in Saskatchewan (plus amounts for dependent children and over age 65).

: no tax payable in Alberta for taxable incomes of less than $3,978 (taxable income of $9,730).

: no tax payable in Ontario for taxable incomes less than $1,630.

ii. **Surtaxes**

: Ontario -- 3% of Basic Ontario Tax in excess of $5,000.

: B.C. -- 10% of Basic B.C. Tax in excess of $3,500.

: Saskatchewan -- 12% of Basic Saskatchewan Tax in excess of $4,000.

e. Issues and Options

- discussed in detail further on in the report

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$719.1 million
1987-88 to 1990-91	Moderate Growth

2. Retail Sales Tax

a. Description and Purpose

- introduced in 1967 to provide a tax on a number of services and on tangible personal property consumed in, purchased in, or brought into, Manitoba.

- general rate is 6%; tax on liquor is 12% for wine, spirits and imported beer and 6% for Canadian-made beer.

b. **Exemptions**

- major ones include food sold as groceries, takeout food, restaurant meals costing less than $6, children's clothing and footwear, farm implements/machinery/repair parts/granaries, drugs and medications, handicapped appliances (e.g. artificial limbs), safety equipment, books/newspapers/publications, uncancelled postage stamps, energy conservation devices, tobacco products, and gasoline and motive fuel used in internal combustion engines.

c. **Historical Information**

- introduced in 1967; revenue impact has grown from $60 million to the $465 million projected for 1986-87.

d. **Cross-Canada Comparison**

- comparable rates are as follows:

Newfoundland	12%
New Brunswick	11%
Nova Scotia	10%
P.E.I.	10%
Quebec	9%
Ontario	7%
B.C.	7%
Manitoba	6%
Saskatchewan	5%

- other differences are evident in the exemptions from the tax and the rate of commission to vendors. Notable differences between Manitoba and other provinces include the following:

	MANITOBA	SASKATCHEWAN	ONTARIO	B.C.
BEER BY THE GLASS	6%	10%	10%	EXEMPT
PATENT MEDICINES	EXEMPT	EXEMPT	TAXABLE	EXEMPT
PAIN KILLERS	EXEMPT	EXEMPT	TAXABLE	EXEMPT
DRYCLEANING/ LAUNDRY	TAXABLE	EXEMPT	EXEMPT	EXEMPT
RESTAURANT MEALS	TAXABLE ABOVE $6	EXEMPT	TAXABLE ABOVE $1	TAXABLE ABOVE $6.99
CLOTHING	CHILDREN'S EXEMPT	ALL PRICED LESS THAN $300 EXEMPT	CHILDREN'S EXEMPT	CHILDREN'S EXEMPT
FOOTWEAR	CHILDREN's EXEMPT	ALL PRICED LESS THAN $300 EXEMPT	ALL PRICED LESS THAN $30 EXEMPT	CHILDREN'S EXEMPT
ENERGY CONSERVATION ITEMS	MOSTLY EXEMPT	TAXABLE	TAXABLE	MOSTLY EXEMPT
SCHOOL SUPPLIES	MOSTLY TAXABLE	TAXABLE	MOSTLY TAXABLE	EXEMPT
CIGARETTES	EXEMPT	EXEMPT	TAXABLE	EXEMPT

e. Issues and Options

- Manitoba has a very broad application of the retail sales tax compared to other provinces; however, as noted in the above listing, some areas of variance may be worthwhile reviewing and possibly adjusting (e.g. beer by the glass, patent medicines, pain killers, energy conservation items, and cigarettes). For example, if the exemption for energy conservation items was removed, additional revenues in the order of $2.5 million could be raised.

- the general rate of 6% and the rate for liquor of 12% could be increased to produce significant increased revenue for the province -- based on projected expenditure patterns, a total of $72 million for each 1% increase on the general rate and $2.74 million for each 1% increase in the rate for liquor. If the tax on domestic beer was increased to 12% from 6%, additional revenue in the order of $12 million could be raised.

- at present, a number of services are subject to the Retail Sales Tax: lodging (in hotels, motels, etc.); telecommunications originating and terminating within the province; repairing, maintaining, testing, cleaning, washing, polishing, painting, decorating, etc. of tangible personal property which is taxable; printing, binding, duplicating, etc.; and photographing and microfilming.

- additional revenue increases are possible through the application of the tax to more services as outlined in the following chart --

ESTIMATED TAX EXPENDITURES ON PERSONAL SERVICES - 1986

	Expenditure/ Income	Tax Expenditure
	($ millions)	
Household expenditure on personal services:		
Life insurance premiums	84.4	5.1
Personal care services	59.8	3.6
Spectator-attended entertainment performances	52.5	3.2
Services related to household furnishings and equipment not presently taxed	20.7 (part)	1.2 (part)
Domestic and other custodial services	16.9	1.0
Financial services	15.2	0.9
Income of self-employed professionals**		
Lawyers and notaries (679)	61.3	3.7
Accountants (548)	25.5	1.5
Engineers and architects (113)	8.3	0.5
Management consultants	N/A	N/A
Subtotal (consistent with base in 1986 Manitoba Budget Account)	344.6	20.7
Household expenditure on personal services:		
Automobile insurance premiums***	136.1	8.2
Homeowners' insurance premiums	50.2	3.0
Day care centres and day nurseries	33.8	2.0
Income of self-employed professionals:*		
Dentists (220)	18.0	1.1
Building rentals:		
Residential	475.0	33.0
Industrial	120.0	7.2
Office	75.0	4.5
Retail	n.a.	n.a.
Advertising:		
Newspapers and periodicals	71.3	4.3
Television and radio	60.6	3.6

* Some are taxable at present
** Number of taxfilers in occupation class given in brackets
*** Problem of double taxation

NOTE: See Appendix for notes and source information

- in considering a higher increase option of 2 or more points, a compensating progressive measure could be added: exemption of all clothing and footwear purchases where the items are priced at less than $300 (as Saskatchewan has done). This would mean a revenue reduction of approximately $26.5 million (at the 6% rate level).

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$465.0 Million
1987-88 to 1990-91	Moderate Growth

3. Corporation Income Tax

a. Description and Purpose

- provincial tax levied at a rate of 10-17% of taxable income of corporations --

  * small corporations = 10%
  * other corporations = 17%

- province allocates 1% of the tax collected on corporations to municipalities.

b. Exemptions

- Nil

c. Historical Information

- revenue impact has grown to an estimated $146.5 million for 1986-87.

d. Cross-Canada Comparison

- comparable rates are as follows:

Manitoba	10 - 17%
Saskatchewan	10 - 17%
Newfoundland	10 - 16%
British Columbia	8 - 16%
Nova Scotia	10 - 15%
Ontario	10 - 15-1/2%
New Brunswick	9 - 15%
Quebec*	3.22 - 13.94%
Alberta*	5 - 11%
P.E.I.	10%

* collects its own tax

- other differences are evident in the areas of exemptions and special reductions. Notable differences are as follows:

	Manitoba	Alberta	Saskatchewan	Ontario
Special Rate for Manufacturing and Processing	NO	YES - 0%-5%	YES - EXEMPT	YES - 1% less than general rate
Small Business Rate	10%	0%-5%	10%	10% first $200,000 income exempt
Tax Holiday	NO	NO	YES - 2 YEARS	YES -- (3 years)

e. Issues and Options

- discussed in detail in the recommendations section of the report.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$146.5
1987-88 to 1990-91	Moderate Growth

4. Levy for Health and Education

a. Description and Purpose

- a levy on employers of 1.5% of total annual gross remuneration of $75,000 or more paid in the calendar year.

- employers with total annual gross remuneration between $50,000 and $75,000 pay a reduced rate of tax -- 4-1/2% of the total in excess of $50,000 but less than $75,000.

b. Exemptions

- employers with total annual gross payrolls of less than $50,000 are exempt from paying the tax.

c. Historical Information

- introduced in 1982; revenue impact has grown from $55.5 million (partial year) to $123.5 million projected for 1986-87.

d. Cross Canada Comparison

While Manitoba and Quebec are the only two provincial jurisdictions with a payroll levy there are three other provincial jurisdictions that impose health/medicare premiums which are generally paid by employers (Ontario, Alberta and B.C.). The Quebec levy is at a level of 3.22% while premiums in the other jurisdictions can be calculated as a percentage of compensation paid, as noted in the following table.

Percent of Income Paid

Family Income Level	British Columbia	Alberta	Manitoba	Ontario	Quebec
15,000	2.72	2.24	1.5	4.76	3.22
20,000	2.04	1.68	1.5	3.57	3.22
25,000	1.63	1.34	1.5	2.86	3.22
30,000	1.36	1.12	1.5	2.38	3.22

The other five provinces do not impose either a levy or premiums at the present time. Among the five provinces currently imposing a levy or premium Manitoba has the lowest rate. It is of interest that these five provinces are inhabited by 80% of Canada's population.

e. Issues and Options

- the majority of the tax (51%) is paid by 85 filers of the more than 12,000 employers subject to the levy.
- a significant number of small firms (3,710) account for a very small portion ($3.0 million or 2.5%) of the levy revenue and could be exempted with only a minor revenue loss to the province.
- the levy is deductible for income tax purposes, reducing its net cost to taxable businesses.
- the levy is currently an effective means of the province obtaining revenues from larger businesses, and is potentially an attractive measure for ensuring increased fairness in distributing the tax burden.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$123.5 Million
1987-88 to 1990-91	Moderate Growth

5. Gasoline Tax

a. Description and Purpose

- tax on the purchase of motor gasoline introduced in 1923; rate of 9¢ per gallon in 1955 and increased after that point to 11¢ (1956), 14¢ (1961), 17¢ (1964), reduced to 15¢ (1974), increased to 18¢ (1975), revised to 4¢ per litre (1979), revised to an ad valorem rate of 20% of price but with a minimum rate of 4¢ per litre, increased to 4.6¢ (1980), 5.2¢ (1981), 5.7¢ (1981), 6.2¢ (1982), 6.4¢ (1982), discontinued ad valorem and set a specific rate of 7.5¢ (1983), increased to 8.9¢ leaded and 8.0¢ unleaded (1985).

- different rates apply to gasohol (6.4¢ leaded and 5.5¢ unleaded) and aircraft gas (4.8¢).

b. Exemptions

- marked or coloured gasoline used for specific purposes (i.e. farm operations).

c. Historical Information

- introduced in 1923; revenue impact has grown from $56,000 to $115 million.

d. Cross Canada Comparison

	Motor Leaded	Motor Unleaded	Aircraft	Farm Trucks
Quebec	13.65¢	14.40¢	9%	13.65¢
Nova Scotia	9.8¢	9.8¢	.9¢	9.8¢
Newfoundland	9.4¢	9.4¢	.7¢	9.4¢
New Brunswick	7.6¢	8.0¢	2.0¢	7.6¢
Ontario	8.3¢	8.3¢	1.88¢	8.3¢
Manitoba	8.9¢	8.0¢	4.8¢	EXEMPT
P.E.I.	8.2¢	8.2¢	.7¢	8.2¢
B.C.	6.14¢	6.14¢	2.14¢	2.14¢
Alberta	NIL	NIL	.7¢	NIL
Saskatchewan	NIL	NIL	2.9¢	NIL

- other differences are evident in the areas of exemptions and commissions.

- the majority of provinces do not have a differential between leaded and unleaded: Nova Scotia, Newfoundland, Ontario, B.C., and P.E.I.

- where there is a leaded-unleaded differential, it varies in application: Quebec and New Brunswick charge more for unleaded, while Manitoba charges more for leaded gasoline.

e. Issues and Options

- Manitoba's tax rates are comparatively moderate, with one exception -- the exemption for farm trucks, which is only applicable in Manitoba, Saskatchewan, and Alberta.

- an increase of 1¢/litre would raise an additional $14 million annually. However, a 1¢/litre increase would be extremely high in certain cases, so any increase should be selective (eg. limited to the rates listed in the chart above).

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$115.0 Million
1987-88 to 1990-91	No growth

6. Tobacco Tax

a. Description and Purpose

- tax on the purchase and use of cigarettes, cigars, and tobacco products at a rate of 4.1¢ per cigarette, 1.6¢ per gram of tobacco and 2.5¢ to $1.15 per cigar (dependent on price).

b. Exemptions

- none applicable.

c. Historical Information

- introduced in 1963 when the rates (1/5 of 1¢ for each cigarette, 1¢ to 4¢ per cigar, and 1¢ per half-ounce of tobacco) resulted in revenues totalling $2.7 million; 1986-87 estimated revenue is $97.5 million.

d. Cross-Canada Comparison

	Tax Per Cigarette ¢	Tax on Tobacco Per Gram ¢	Tax Per Cigar ¢
Newfoundland *	4.78	1.56	13 - 69
Quebec	4.52	2.0	4 - 33;60% of retail on 55¢ plus
Manitoba	4.1	1.6	2.5- 115
Saskatchewan	4.08	1.68	13 - 60
New Brunswick	4.0	50% of Retail Price	2 - 19
Nova Scotia	3.5	50% of Retail Price	3 - 28
P.E.I. *	3.5	.56	2 - 22
B.C.	3.72	1.56	4 - 42;77% of retail on 50¢ plus
Ontario *	2.7	1.5	3 - 25;45% of retail on 55¢ plus
Alberta	1.48	.64	4 - 25

* Also charge sales tax.

e. Issues and Options

- the tax per cigarette has a revenue impact of $11 million for each 1/2¢ increase, dependent on product use.

- an additional consideration would be to apply the retail sales tax to tobacco. The revenue impact of this measure could be an additional $15 million at the 6% rate.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$97.5 Million
1987-88 to 1990-91	Gradual Decline

7. Motive Fuel Tax

a. Description and Purpose

- Tax applied at the time of purchase of motive fuel which is a petroleum product not taxable under the Gasoline Tax Act but which can be used in the operation of an internal combustion engine.
- current rates are 9.2¢ per litre for motor vehicles and railway locomotives, 7.0¢ per litre for road-building and some off-highway use, and 1.8¢ per litre for commercial heating.

b. Exemptions

- farm trucks and machinery, some off-highway use, domestic heating.

c. Historical Information

- introduced in 1945; 1964 rate was 17¢ per gallon with refunds of 15¢ per gallon for fuel used in internal combustion engines for off-highway purposes.
- revenues have increased from $10,000 in 1946 to the $60.6 million projected for 1986-87.

d. Cross Canada Comparison

	Motor Vehicle Tax Per Litre ¢	Tax Per Litre Farm Trucks ¢	Tax Per Litre Railway Locomotives ¢
Newfoundland	11.7	11.7	EXEMPT
Quebec	12.45	12.45	9% of Retail
P.E.I.	9.9	9.9	9.9
Ontario	9.9	9.9	3.1
Nova Scotia	9.7	9.7	EXEMPT
Manitoba	9.2	EXEMPT	9.2
New Brunswick	7.8	7.8	3.4 to 7.8
B.C.	6.58	2.14	2.14
Alberta	NIL	NIL	.7
Saskatchewan	NIL	NIL	13.6

e. Issues and Options

- a 1¢ increase in the tax per litre would increase revenues to the province by $8 million; however, a 1¢ increase would be a very high percentage increase on some fuels, so any adjustments should be selective.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$60.6 Million
1987-88 to 1990-91	No growth

8. Corporation Capital Tax

a. Description and Purpose

- a tax applied on the taxable paid-up capital of corporations having a permanent establishment in Manitoba;

- general rate is .3% of the amount taxable as at the close of the fiscal years of the corporations;

- special rates for Banks (3.0%) and Trust/Loan Corporations (.9%);

b. Exemptions

- corporations with less than $1 million in taxable paid-up capital;

- also exempt are credit unions, cooperative corporations, and family farm corporations.

c. Historical Information

- introduced in 1976 with an initial revenue impact of $10 million; 1986-87 projection is $41.1 million.

d. Cross-Canada Comparison

PROVINCE	GENERAL RATE %	BANK RATE %	TRUST/LOAN CORP. RATE %	SMALL BUSINESS EXEMPTION	CROWN CORPS.
SASKATCHEWAN	.5	3.0	1.2	Basic Deduction of $10 million	REGS.
QUEBEC	.48	.97	.97	NO	REGS.
MANITOBA	.3	3.0	.9	YES- UNDER $1 Million	DISCRETION
ONTARIO	.3	.8	.6	NO	REGS.
B.C.	.2	2.0	.6	YES- UNDER $1 Million	REGS.
NOVA SCOTIA	N/A	1.5	1.5	N/A	N/A
NEWFOUNDLAND	N/A	1.5	1.5	YES- $500,000 Deduction	N/A

NOTE: "REGS" = provided for in specific regulations for each Crown affected

e. Issues and Options

- there is no strong argument for maintaining the large disparity in rates between banks and trust companies that has evolved over the years since 1976.

- if the rate for trust and loan companies was increased from .9% to 3.0%, the yield would be an additional $5 million annually.

- if it was decided to have the same rate of tax for both banks and trust companies and to maintain the same total yield from the two sources (currently at $15 million), the rate would have to be set at 2.43%.

- a .1% increase in the general rate has a revenue impact of $9 million.

- in general, the application of this tax appears to be one of the better mechanisms for taxation of financial institutions.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$41.1 Million
1987-88 to 1990-91	Moderate Growth

9. Revenue Tax

a. Description and Purpose

- tax levied on the purchase price of electricity, natural/manufactured gas delivered by a pipeline, and coal and derivatives.
- current rate is 6% (i.e. equivalent to the Retail Sales Tax level).

b. Exemptions

- gas and electricity used for domestic heating.

c. Historical Information

- introduced in 1964 when the rate was 5% and had a revenue impact of less than $2 million; 1986-87 projection is a total of $34.5 million.

d. Cross-Canada Comparison

PROVINCE	TAX ON GAS FOR DOMESTIC USE %	TAX ON GAS FOR COMMERCIAL USE %	TAX ON ELECTRICITY DOMESTIC %	TAX ON ELECTRICITY COMMERCIAL %
Newfoundland	12	12 EXCEPT MFG.	EXEMPT	MFG. EXEMPT 12 ON OTHERS
Quebec	9	9 EXCEPT MFG.	9	9 EXCEPT MFG.
Manitoba	HEATING EXEMPT; 6% ON COOKING	6	HEATING EXEMPT; REST 6%	6
B.C.	EXEMPT	7	EXEMPT	7
Nova Scotia	EXEMPT	EXEMPT	TAXABLE	TAXABLE
Saskatchewan	EXEMPT	EXEMPT	EXEMPT	5% LIGHTING; OTHERS EXEMPT
Ontario	EXEMPT	EXEMPT	EXEMPT	EXEMPT
Alberta	EXEMPT	EXEMPT	EXEMPT	EXEMPT
New Brunswick	EXEMPT	EXEMPT	EXEMPT	EXEMPT
P.E.I.	EXEMPT	EXEMPT	EXEMPT	EXEMPT

e. Issues and Options

- a 1% increase in the revenue tax would result in a revenue increase of $5.7 million.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$34.5 Million
1987-88 to 1990-91	Minimal growth

10. Mining Tax

a. Description and Purpose

- applies a basic royalty rate of 18% on all profits earned on metallic minerals.

b. Exemptions

- processing allowance subject to a maximum of 65% and a minimum of 15% of the profit
- exploration and/or development expense
- investment credit

c. Historical Information

- introduced in 1933; at 1975 there was a two-tier royalty rate of 15% and 35%

- revenues have grown from $700,000 in 1957 to the 1986-87 estimate of $35.6 million.

d. Cross-Canada Comparison

	BASE	RATE	EXPLORATION/EXPENSE/ PROCESSING ALLOWANCE	INVESTMENT CREDIT
	%			
B.C.	V	17-1/2	YES	NO
Saskatchewan	A	12-1/2	YES	NO
Manitoba	R	18	YES	YES
Ontario	I	20	YES	YES
Quebec	A	18	YES	N/A
New Brunswick	B	16	YES	NO
Nova Scotia	L	15	YES	NO
Newfoundland	E	15	YES	NO

- with the complexities of mineral taxation across the country, there are other significant differences in the taxation approach taken by individual provinces.

e. Issues and Options

- given the current and projected poor market prices for Manitoba - produced minerals, upward adjustments in rates may pose unnecessarily heavy burdens on some segments of the industry.

- copper is currently considered to be undervalued and the price could move substantially higher, and a sharp rise in zinc prices is also possible. The short-term outlook for nickel is less optimistic, with increasing inventories and decreasing demands. Gold prices are expected to continue to rise.

- another consideration is the relative mobility of mining capital internationally, which makes the rate in comparison to other world jurisdictions very important.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$35.6 Million
1987-88 to 1990-91	Fluctuating Levels

11. Reciprocal Taxation Agreement

a. Description and Purpose

- under this Agreement, Manitoba has foregone the exemptions previously available to it on transactions under the federal Excise Tax Act, and has agreed to pay federal sales and excise taxes directly through suppliers on all taxable transactions. In return, the federal government makes payments in lieu of taxes in respect of all purchases or transactions normally subject to provincial retail sales and motive fuel taxes.

b. Exemptions

- the federal government self-insures its vehicle fleet in Manitoba and across Canada, and so does not pay Autopac premiums.

c. Historical Information

- following the lead of the six eastern provinces, Manitoba signed a Reciprocal Taxation Agreement with the Government of Canada, running from April 1, 1983 through March 31, 1987.

d. Cross-Canada Comparison

- All provinces but Alberta and Saskatchewan have similar agreements with the federal government.

e. Issues and Options

- None identified

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$18.1 Million
1987-88 to 1990-91	Moderate growth

12. Insurance Corporations Tax

a. Description and Purpose

- a tax levied on insurance premiums: 2% on life, accident, and sickness insurance premiums and 3% on all other insurance premiums.

b. Exemptions

- NIL

c. Historical Information

- introduced in 1957; revenue impact has grown from $1 million initially to the $17.2 million projected for 1986-87.
- rate from 1957 to 1982 was 2% on all forms of insurance premiums; in 1982, the rate was increased from 2% to 3% for "other than life" insurance premiums, with an increased revenue impact of nearly $4 million (from $9.3 million in 1981 - 82 to $13.2 million in 1982 - 83).

d. Cross-Canada Comparison

	RATE ON PREMIUMS FROM ACCIDENT, LIFE AND SICKNESS INSURANCE	RATE ON PROPERTY AND MOTOR VEHICLE INSURANCE PREMIUMS	RATE ON PREMIUMS FROM OTHER TYPES OF INSURANCE
	%	%	%
B.C.	3	-	3
Newfoundland	3	-	3
Saskatchewan	2	1	3
Alberta	2	-	2
Manitoba	2	3	3
Ontario	2	3-1/2 on property	3
Quebec	2	-	3
New Brunswick	2	-	3
Nova Scotia	2 (Life only)	-	3
P.E.I.	2	3/4 for fire	2

e. Issues and Options

- the fact that Blue Cross is currently exempt from this tax should be reviewed, especially considering the comparability of its business to the taxed insurance companies.

- Manitoba's current rates are comparable to most of the other provinces, but some upward movement in the general rates may be reasonable at this time.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$17.2 Million
1987-88 to 1990-91	Moderate growth

13. Oil and Natural Gas Tax

a. Description and Purpose

- producing area tax levied on the ownership of minerals on land producing oil or gas

- current rates applied to monthly production values range from 6 - 275 mills on developed wells, 2 - 125 mills on new wells, and 1 - 58 mills on new wells during the incentive period.

b. Exemptions

- nil

c. Historical Information

- introduced in 1954 with first year income of less than $400,000; revenue increased steadily to $15 million in 1983-84, then dropped to $14 million in the two subsequent years and is projected at $7 million for 1986-87.

- original rate applied to potash holdings as well, but this was removed in 1981 when the new Mining Tax Act was introduced and applied to potash mining profits.

d. Cross-Canada Comparison

- not available

e. Issues and Options

- the majority of the revenue collected under this tax measure is from a small number of companies.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$7.0 Million
1987-88 to 1990-91	Moderate growth

14. Pari Mutuel Tax

a. Description and Purpose

- tax on wagers at a general rate of 7.5% of the amount wagered and 12-1/2% of the amount of each bet that depends on the selection of 3 or more horses.

b. Exemptions

- NIL

c. Historical Information

- the taxing of pari-mutuel betting appears to have started in 1945.

- revenue from the Pari-Mutuel tax has grown from $1.5 million in 1974-75 to $5 million projected for 1986-87; however, given that virtually all of the funds are redistributed in the form of grants (eg. to horse breeders, etc.) to the industry, there is essentially no net revenue to the province from this taxation measure.

d. Cross-Canada Comparison

- too variable to compare all provinces.

- most similar to Manitoba tax is the Nova Scotia 8% tax and the Ontario 9% tax.

e. Issues and Options

- in general, the pari-mutel tax is an area of taxation which should be reviewed preferably with a view to making it a valid tax measure rather than the current arrangement of having virtually all revenues collected reverted back through a granting mechanism.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$5.0 Million
1987-88 to 1990-91	No growth

15. Government of Canada Contributions

a. Description and Purpose

- recoveries from the Government of Canada cover three major areas:

Program - specific	-	$ 224.0 million
Equalization	-	510.8 million
EPF Transfer	-	434.0 million
TOTAL		$1,168.8 million

- program - specific recoveries are largest for ES & ES ($103.7 million), Community Services ($58.1 million), and Education ($29.0 million).

b. Exemptions

- not applicable.

c. Historical Information

- level of federal transfers overall has been a significant portion of Manitoba revenues, but is being systematically reduced and now represents only 35% of the total revenue base.

d. Cross-Canada Comparison

- Not available

e. **Issues and Options**

- discussed in some detail further on in the report.

f. **Projected Revenue Level Growth**

Year	Projected Revenue Equalization	EPF	Other
1986-87	$510.8 Million	$434.0 Million	$224.0 Million
1987-88 - 1990-91	Decline; then minimal growth	Minimal growth	Minimal growth

16. **Land Titles Fees**

a. **Description and Purpose**

- fees collected for the registration of mortgages and land transfers.
- mortgage fee is calculated on the mortgage amount and the transfer fee is based upon the sworn value of the property; current fee is $2 per thousand dollar value.
- bulk of revenues comes from base fees of $16 for mortgages and $17 for land transfers.
- a variety of other associated fees is also collected in the handling of property transactions.

b. **Exemptions**

- not applicable.

c. **Historical Information**

- base fees increased $10 from $6 and $7 to $16 and $17 in September 1986.

d. Cross-Canada Comparison

Province	Levying Authority	Rate
Newfoundland	Province	$10.00 flat plus $0.40 per $100 of price above $500
Prince Edward Island	Province	$7.00 flat
Nova Scotia	Municipalities (optional)	1.0% of price
New Brunswick	Province	0.25% of the greater of assessed value or purchase price
Quebec	Municipalities (optional)	0.3% of price under $50,000 plus 0.6% of price over $50,000
Ontario	Province	0.5% of price under $55,000 plus 1.0% of price over $55,000 (except 1.5% on residential properties over $250,000)
Manitoba	Province	$17.00 flat plus $2.00 per $1,000 of price over $1,000
Saskatchewan	Province	$15.00 flat plus $1.50 per $1,000 plus $0.75 per $1,000 of price over $1,000,000
Alberta	Province	$10.00 flat plus $1.00 per $1,000 price over $10,000 plus $0.50 per $1,000 of price over $100,000
British columbia	Province	$35.00 flat plus $1.00 per $1,000 of price

NOTE: The rate given for Nova Scotia is for Halifax. Provincial legislation established a ceiling of 2.0% of price for the municipalities. The rates in effect range from no tax to 1.25% in Dartmouth. The average rate is about 1.0% as in Halifax.

Wood and farm lots are exempt in Quebec.

Purchases of agricultural and recreational property in Ontario by non-residents of Canada are taxed at 20.0%.

The impact of these fees on property transactions valued at $50,000, $100,000, and $200,000 is noted in the following chart:

	$50,000	$100,000	$200,000
Newfoundland	208.00	408.00	808.00
Prince Edward Island	7.00	7.00	7.00
Nova Scotia	500.00	1,000.00	2,000.00
New Brunswick	125.00	250.00	500.00
Quebec	150.00	450.00	1,050.00
Ontario	250.00	750.00	2,250.00
Manitoba	115.00	215.00	415.00
Saskatchewan	88.50	163.50	313.50
Alberta	50.00	100.00	150.00
British columbia	85.00	135.00	235.00

e. Issues and Options

- major fee increases were put into effect in 1983 and 1986; the current revenue base is a greater than cost-recovery arrangement for the government due in part to the number of transactions currently being processed in Winnipeg.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$11.5 Million
1987-88 to 1990-91	Moderate growth

17. Automobile and Motor Carrier Licences and Fees

a. Description and Purpose

- fees levied for the registering of all types of vehicles, based on net weight or wheel base for passenger vehicles and gross weight for trucks and trailers.

- affects the owners of the almost 800,000 vehicles registered in Manitoba.

- average non-commercial registration = $27.01;
  average commercial registration = $217.60.

b. Exemptions

- not applicable.

c. Historical Information

- not available

d. Cross-Canada Comparison

- significant variance in costs from province to province, with Manitoba's rates very low, execially when compared to Quebec's and B.C.'s.

e. Issues and Options

- an increase in fees of $5.00 per registration would result in the following increased revenue to the province: $150,000 from commercial registrations and $2.5 million from non-commercial registrations.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$ 30.3 Million
1987-88 to 1990-91	Moderate Growth

18. Drivers' Licences Fees

a. Description and Purpose

- fees charged for drivers' licences on a cost-recovery basis; current fee is $7.00.

b. Exemptions

- not applicable

c. Historical Information

- not available

d. Cross-Canada Comparison

	RENEWAL PERIOD (YRS.)	FEE CHARGED	AVERAGE ANNUAL FEE
Quebec	2	$ 16	$ 8
Saskatchewan	1	10	10
Newfoundland	3	24-27	8-9
Manitoba	1	7	7
New Brunswick	2	13	6.50
Nova Scotia	3	15	5
Ontario	3	21	7
P.E.I.	3	6	2
B.C.	5	10	2
Alberta	5	10	2

e. Issues and Options

- an increase in fees of $1.00 per licence would result in increased revenue to the province totalling $650,000.

- the province may want to consider a multi-year (eg. 2 or 3) renewal system to replace the current annual arrangement; such a change may provide significant administrative savings.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$ 5.8 Million
1987-88 to 1990-91	Moderate Growth

19. Water Resources

a. Description and Purpose

- fees for water power rentals charged to Manitoba Hydro and Winnipeg Hydro, based on hydroelectric generation during the year at each individual power plant.

b. Exemptions

- not applicable

c. Historical Information

- water power rentals were introduced in the early 1900's by the federal government, and were transferred to the provinces in 1930.
- a major increase in 1986-87 led to a revenue base exceeding $31 million for this item.

d. Cross-Canada Comparison

- seven provinces collect Water Power Rental Fees; Manitoba's rates are relatively moderate.

e. Issues and Options

- the rental expenses have constituted 2-3% of the combined operating expenditures of the two utilities in recent years.
- this revenue effectively constitutes "resource" revenue to the province from its single major renewable resource of hydro power.
- the major increases in 1986-87 may make similar increases in the next fiscal year somewhat difficult.
- the net revenue impact of increased output rates is outlined in the following table:

Rate/hpy	Rate Increase (%)	Revenue Impact ($M)*
$ 4.50	38.5	3.5 - 3.8
$ 5.00	53.8	5.0 - 5.5
$ 6.50	100.0	9.6 - 10.2
$ 10.00	207.7	20.0 - 21.1

* Variance occurs due to possible variance in Hydro Electric power generation due to environmental and demand factors.

f. Projected Revenue Level Growth at Current Rates

Year	Revenue
1986-87	$ 31.3 Million
1987-88 to 1990-91	No Growth

B. Fees and Charges

Over the 116 years of its existence the Government of Manitoba has evolved a variety of individual fees and charges. These charges run the gamut from Drivers Licences and Land Titles fees, discussed previously, which affect many Manitobans, to obscure charges paid by only a few individuals.

Over the years a thorough Regulation Review Process has been institutionalized in the Provincial Government. It has been praised in interprovincial comparisons and in a major federal study of regulatory reform. However, this Regulation Review Process ensures a complete consideration only of proposals to increase individual fees and charges and only if the Regulation requires the approval of the Lieutenant Governor in Council (Cabinet). If the fees have existed for decades and no change is proposed by the Department administering the fee, insufficient review occurs. If it is a fee or charge of any agency with regulation making authority, it would be unlikely to receive scrutiny by the Cabinet or Treasury Board. For these reasons it was considered appropriate to conduct a one time review of fees and charges with the objective of a streamlined system which achieves greater efficiency and is more readily reviewed.

The major fees have been included in the immediately preceding section of this report under the heading Major Current Revenue Sources. The remaining fees and charges are listed below. Excluded are fees charged one branch or level of government by another and statutory payments such as pension contributions for M.L.A.s.

The companion Report on Expenditure Management recommends several areas where subsidies might be elmininated through increased fees and charges.

a. A Low Income Offset

(4% of Personal Exemptions less 1% of Net Income).

This low income offset would be designed to prevent any additional tax liability for taxfilers whose net incomes are below twice the levels of their personal exemptions. The offset would not be refundable but would apply against ordinary Manitoba income taxes payable. As a result, some lower income taxfilers would experience decreases in their Manitoba tax liabilities. In effect, there would be four tax brackets under this measure; the following table shows the (approximate) ranges of these brackets and the rates applicable in each for 1986.

	Rate (%)	Single ($)	Married 2 Children ($)	Single Senior ($)
Net Income under two times Personal Exemptions	Under 0	8,360	18,520	13,580
Net Income between two and four times Personal Exemptions	0 - 1%	16,720	37,040	27,160
Net Income between four times Personal Exemptions and $40,000	1%	40,000	40,000	40,000
Net Income over $40,000	Up to 2%	-	-	-

b. Modification to current income tax surtax to 1.0% of Net income over $30,000 instead of the current 20% of provincial income tax payable in excess of $2,600.

The impact of all the changes on two "typical" taxfiler types is summarized in the table below:

IMPACT OF NET INCOME TAX OPTION ON INVESTOR AND EMPLOYEE TAX FILERS

	CURRENT 1987 MANITOBA TAXES		IMPACT OF CHANGES	
Income	Employee(1)	Investor(2)	Employee(1)	Investor(2)
10,000	0	0	0	0
15,000	1	0	(138)	0
20,000	619	0	(64)	124
25,000	1,087	0	53	274
30,000	1,587	79	174	421
50,000	4,308	1,009	507	1,163
75,000	8,939	2,623	412	1,834
100,000	14,348	4,963	93	2,135

(1) Employee is married with dependent spouse and two dependent children and claims employment expense deduction, UI premiums, CPP contribution, pension plan contributions at income levels over $10,000.

(2) Married investor with dependent spouse derives income from interest, dividends and capital gains.

The major difficulty raised by the tables above is the apparent regressivity of the measure among the "employee" filers at the higher income levels. This effect occurs because these taxfilers are assumed to have only minimal deductions. While this is a reasonable assumption at lower income levels, it is not "typical" at higher levels. The apparent "regressivity" occurs among precisely those (relatively few) individuals who are presently subjected to the highest taxes. The proposed rules would result in taxpayers with roughly similar economic incomes paying more equal income taxes.

The following table shows the impact of the option for 1986 and 1987, as simulated on a sample of actual Manitoba taxfilers (based on 1985 incomes). The table below shows the average taxes which would be paid in the absence of any changes and the effect of the changes.

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
1.	Sale of Hansard, Proceedings and Journals to the Public	Legislation	$10 individuals $40 corporations	$28,000
2.	For copies of Orders in Council	Executive Council	$.50 per page and $2 for certification	$100
3.	Cattle Brands	Agriculture	75% of Operating Costs ($5 - $10)	$6,000
4.	Milk and Cream Testers and Graders	Agriculture	$5 per annum	$1,700
5.	Cheese and Butter Makers Licenses	Agriculture	$20 per annum	$1,500
6.	Margarine Licenses	Agriculture	$50 Manufacture $5 Warehouse	$100
7.	Pasteurizer Operators and Milk Receivers	Agriculture	$5 Milk Receiver $20 Pasteurizer Operator	$1,300
8.	Poultry Dealers Licenses	Agriculture	$10 Main Branch $2 Other Branch	$300
9.	Turkey Flock Blood Testing	Agriculture	$20 per flock plus $.15 per bird over 100 birds	$5,000
10.	Poultry Flock Blood Testing	Agriculture	$11 annual plus $.05 per bird over 100 birds	$8,000
11.	Owner Sampler Dairy Herd Testing	Agriculture	$3 per cow per year	$14,600
12.	Feed Analysis	Agriculture	Grain $10 Mixed Feed $12 Roughage $12	$52,000
13.	Dairy Plant Licenses	Agriculture	$50	$2,300
14.	Diagnostic Fee	Agriculture	By Schedule Partly Subsidized	$215,500
15.	Artificial Insemination	Agriculture	$5 per A.I. Tech. $50 per Semen Dist. Agency	$300
16.	Veterinary Medicine	Agriculture	$25 per year $25 per exam for new members	$6,300
17.	Artificial Insemination Courses	Agriculture	Profitable Activity $285 average	$15,000
18.	Soil Testing Services	Agriculture	$16 per field sample (routine) $31.50 (complete) $16.50 (plant tissue)	$240,000
19.	Tree Pruners License	Agriculture	$20 Initial $2 Annual	$800
20.	Tree Pruners Course	Agriculture	$10	$1,400
21.	Farm Machinery Licenses	Agriculture	$10 Dealer $25 Vendor	$8,700
22.	Pesticide Dealers Licenses	Agriculture	$10	$11,000
23.	Lease Rentals Crown Land	Agriculture	Hay and Grazing $1.29 per Animal Unit Per Month Annual Cropping 25% of Crop Value	$1,144,000
24.	Grazing Permits Hay Permits	Agriculture	Grazing $1.29 per Animal Unit/Month Hay $3.90 per ton Native $5.85 per ton Tame	$7,700 $8,900
25.	Assignment Fee Crown Lands	Agriculture	$25 In Family Transfers $100 + $10 per parcel unit	$2,800
26.	Multi Media Extension Courses	Agriculture	$30 per registration	$50,000

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
27.	Sale of Publications	Agriculture	Varied	$14,000
28.	Central Drug Purchasing	Agriculture	Full Cost Recovery	$4,411,600
29.	Semen Purchases	Agriculture	Various Prices. Subsidy circa 10% or $10,000 per annum	$784,300
30.	Sale of Probes and Augers	Agriculture	$50 - $125 range	$2,500
31.	Farm Machinery Contract Forms	Agriculture	Act $3.25 Pad of 30 - $.90 New - $.35 each	$1,000
32.	Field Drainage	Agriculture	$30 per 1/4 section	$1,800
33.	Skill Development Courses	Agriculture	N.A.	$9,000
34.	Brandon Extension Centre Courses	Agriculture	$5.00	$7,200
	Room and Board - Agricultural Extension Centre	Agriculture	Various	$210,000
35.	Dugout Pumping	Agriculture	$300 - $350 per dugout	$116,700
36.	L.G.D. Portion of Administration Fee	Agriculture	$10 per disposition	$10,000
37.	Manitoba Markets Weekly Report	Agriculture	$30 per annum (Subsidized)	$900
38.	Court of Appeal Fees	Attorney General	Various	$18,000
39.	Court of Queen's Bench Fees	Attorney General	Various	$2,354,700
40.	Sheriffs and Bailiffs Fees	Attorney General	Various	$245,000
41.	Provincial Court Criminal Fines and Costs	Attorney General	Variable	$6,075,000
42.	Provincial Court Family/Youth Fines and Costs	Attorney General	Variable	$40,000
43.	Queen's Bench Fines and Costs	Attorney General	Variable	$90,000
44.	Legal Aid	Attorney General	Interest on Trust Accounts	$1,064,000
45.	Public Trustee Asset Management	Attorney General	3/5ths of 1 % subject to minimums	$800,600
46.	Public Trustee Capital Disbursements	Attorney General	2 1/2 % of Capital Disbursements	$77,300
47.	Public Trustee Capital Receipts	Attorney General	2 %	$195,300
48.	Public Trustee Escheats to the Crown	Attorney General	Various	$34,000
49.	Public Trustee Estate Inspectors	Attorney General	Various $10 - $30 per hour	$46,000
50.	Public Trustee Income Disbursements	Attorney General	2 1/2 %	$197,800
51.	Public Trustee Income Receipts	Attorney General	2 %	$372,100
52.	Public Trustee Income Tax Returns Preparation	Attorney General	$20 first 1/2 hour $20 per hour thereafter	$97,000

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
53.	Public Trustee Legal Fees	Attorney General	In accordance with Solicitors' Tariff	$100,000
54.	Office of the Chief Medical Examinar	Attorney General	$5 Judges Report $10 Post mortem and/or Medical Examiners Report	$1,905
55.	Security Guard and Investigators License Fees	Attorney General	Various	$32,000
56.	Liquor Control Commission Net Profits	M.L.C.C.	Various	$140,000,000
57.	Tourism Licensing Fees	Business Development and Tourism	$5 to $50	$11,300
58.	Vital Statistics	Community Services	Various	$1,000,000
59.	Manitoba Development Centre Residential Fees	Community Services	0 - $15.25 per diem	$174,000
60.	Meal Charges to Employees (Various Institutions)	Community Services	$1.70 per meal	$75,000
61.	Certificate of Incorporation Corporations Branch	Consumer and Corporate Affairs	$200	$435,000
62.	Amendment	Consumer and Corporate Affairs	$100	$73,000
63.	Registration	Consumer and Corporate Affairs	$200	$120,000
64.	Various Other Corporations Branch Fees	Consumer and Corporate Affairs	$.50 to $5	$130,000
65.	Annual Returns Corporations	Consumer and Corporate Affairs	$20	$619,000
66.	Business and Corporate Names	Consumer and Corporate Affairs	$5-$20	$208,000
67.	Insurance Act Fees	Consumer and Corporate Affairs	Various	$340,000
68.	Direct Sellers License Fees	Consumer and Corporate Affairs	$6, $18, $30	$51,800
69.	Vendor's License Fees	Consumer and Corporate Affairs	$65, $125, $250	$50,500
70.	Collection Agents License Fees	Consumer and Corporate Affairs	$125, $250	$8,000
71.	Bedding, Upholstered and Stuffed Article Permit Fees	Consumer and Corporate Affairs	$25, $50	$18,000
72.	Hearing Aid Certificate Fees	Consumer and Corporate Affairs	Various $20 to $160	$1,700
73.	Public Utilities Board Fees	Consumer and Corporate Affairs	Various Hourly Rates	$454,520
74.	Cemetery License	Consumer and Corporate Affairs	Initial $550 Renewal $275	$2,750
75.	Mausoleum License	Consumer and Corporate Affairs	Initial $550 Renewal $275	$825
76.	Columbarium License	Consumer and Corporate Affairs	$27.50	$193
77.	Crematory License	Consumer and Corporate Affairs	$110	$550
78.	Owners License to Sell	Consumer and Corporate Affairs	$27.50	$275
79.	Agents License to Sell	Consumer and Corporate Affairs	Initial $27.50 Transfer $5.50	$963

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
80.	License to Sell Prearranged Funeral Plans	Consumer and Corporate Affairs	$25.00	$650
81.	Appeals Under Highways Protection Act	Consumer and Corporate Affairs	$25.00 Heavily Subsidized	$375
82.	Real Estate Agents Act Fees	Consumer and Corporate Affairs	Various (50% cost-recovery)	$230,000
83.	Security Registrations	Consumer and Corporate Affairs	Various (50% cost-recovery)	$370,000
84.	Cooperative Credit Union Caisse Populaire Fees	Cooperative Development	Various	N.A.
85.	Classification Fees Film Classification Board	Culture, Heritage Recreation	Full Cost Recovery	$108,550
86.	License Fee Film Exchange	Culture, Heritage Recreation	Full Cost Recovery	$35,250
87.	Manitoba Gazette Sales Queens' Printer	Culture, Heritage Recreation	Full Cost Recovery	$218,400
88.	Reproduction Fees Provincial Archives	Culture, Heritage Recreation	Full Cost Recovery	$18,000
89.	Micrographics Services Provincial Archives	Culture, Heritage Recreation	Camera $22.50 per hour Processing $25.80 per hour Supplies 22% markup	$83,300
90.	Teacher Certification Fees	Education	Various	$18,500
91.	Student Record Fees	Education	Various	$5,000
92.	Correspondence Courses	Education	Below Cost Various	$311,300
93.	Tuition Fees Community Colleges	Education	Various	$3,009,500
94.	Student Loan Interest	Education	12.15 %	$192,000
95.	Education Data Services	Education	M.D.S. Rate	$1,500
96.	Miscellaneous Fees and Charges Community Colleges Parking, Bookstore, etc.	Education	Various	$3,679,300
97.	Tuition Fees - Stevenson Aviation and Technical Training Centre	Employment Services & Economic Security	$52.25 per day	$117,700
98.	Minerals Fees - 46 Separate Fees (23 mining, 23 quarrying)	Energy and Mines	Various	$1,755,300
99.	Petroleum Fees	Energy and Mines	Various	$3,255,500
100.	Sundry Fees	Energy and Mines	Various	$24,300
101.	Petroleum Royalties	Energy and Mines	Various	$4,416,100
102.	Environmental Testing Laboratory Testing Fees	Environment Workplace Health & Safety	$.95 per D.B.S.U. Subsidized	$600
103.	Sale of Inventory	Government Services	Weighted Average Cost	$110,000
104.	Land Value Appraisal Commission	Government Services	$200 per hour	$36,300
105.	Rental of Government Property	Government Services	Market Rates	$435,000

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
106.	Rental of Government Housing	Government Services	$40 - $250 per month	$10,400
107.	Parking Meters	Government Services	$.25 per 1/2 hour	$12,000
108.	Parking Offence Notices	Government Services	$3.00 Expired Meter $5.00 All other	$40,000
109.	Sale of Confiscated Firearms	Government Services	By Auction	$18,800
110.	Sale of Government Assets	Government Services	Fair Market Value	$136,800
111.	Sale of Surplus Material & Equipment	Government Services	By Auction	$112,000
112.	Sale of Surplus Fleet Vehicles	Government Services	By Auction	$1,033,300
113.	Sale of Surplus Office Equipment	Government Services	By Auction	$21,800
114	Dental Mechanics License & Renewal Fees	Health	$100 Initial ⎤-Denturists $100 Annual ⎦ $25 Initial ⎤ Dental Nurses, $10 Annual ⎥-Hygenists, ⎦ Technicians $10 Initial ⎤-Assistants $10 Annual ⎦	$6,000
115.	Employee Accomodation Meals	Health	Various	$110,000
116.	Per Diem Charges - Mental Health Centres	Health	$16.60 per diem (Feb 1/86)	$1,911,900
117.	Impaired Drivers Program Fee	Health	Second Offenders $125	$69,400
118.	Single Trip Certificates	Highways and Transportation	$.09 per kilometer	$439,200
119.	Taxicab Drivers Licenses and Business Licenses	Highways and Transportation	No Change since 1935 Various $1 to $20	$2,300
120.	Medical Review Committee License Suspension Appeal Board	Highways and Transportation	Fee $50 (L.S.A.B.) $35 (M.R.C.) Cost $61 per application	$200,000
121.	Airport Landing Fees	Highways and Transportation	Various	$165,000
122.	Plug-ins - Airports	Highways and Transportation	$2.20 (line power) $2.75 (diesel)	$4,000
123.	Aircraft Parking Fees	Highways and Transportation	Various	$13,000
124.	Vending Machines - Norway House Airport	Highways and Transportation	$10.60 per month x 2	$300
125.	Airport Terminal Storage Rental	Highways and Transportation	Office $9.15 psf Storage $1.90 psf	$24,500
126.	Various Rentals - Airports	Highways and Transportation	Various	$9,600
127.	C.F. Alfred Settee Ferry - Cross Lake	Highways and Transportation	$35/hour	$18,000
128.	Services to Public/Hydro, etc.	Highways and Transportation	100 % recovery	$1,350,500
129.	Tender Charge	Highways and Transportation	$5	$3,400

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
130.	Administration Fee Landlord Tenant Act	Housing	$50	$7,000
131.	Building Permit and Inspection Fees Mobile Homes	Labour	Various Partial Cost Recovery	$18,800
132.	Building Permit and Inspection Fees	Labour	Various Partial Cost Recovery	$238,800
133.	Amusement Rides Inspection Fee	Labour	$10 - $100	$3,100
134.	Electrical Inspectors	Labour	Various	$78,000
135.	Electricians Exams and Licenses	Labour	$10 - $40	$14,600
136.	Power Engineers Exams and Certificates	Labour	$2 - $40	$20,000
137.	Boiler and Elevator Inspections for Federal Government	Labour	$86.82 per unit	$47,100
138.	Gas and Oil Burner Act Exams Permits	Labour	Various	$138,900
139.	Elevator Permits	Labour	$20 - $100 50 % Cost Recovery	$140,000
140.	Elevator Alterations	Labour	$15 - $70 per drawing	$3,700
141.	Projectionists Exams and Licenses	Labour	$5 - $25	$500
142.	Plant Design Registration Inspector	Labour	$10 - $200	$45,000
143.	Boiler Inspections	Labour	$10 - $250	$247,500
144.	Fee for Testing and Re-Testing Welders	Labour	$5 - $41	$20,000
145.	Hairdressers Exams and Licenses	Labour	$1 - $20	$13,500
146.	Barber's Exams and Licenses	Labour	$1 - $20	$9,000
147.	Apprenticeship Fees, Registration Exams and Licenses	Labour	$1 - $10	$14,300
148.	Employment Agency License Fee	Labour	$50	$1,400
149.	Pension Plan Registration Fee	Labour	$1.50 per member Min. $22.50 - Max $750	$65,000
150.	Tuition Fees - Manitoba Fire College	Labour	Various	$21,800
151.	Municipal Board Fees	Municipal Affairs	Various	$18,000
152.	Municipal Planning Fees	Municipal Affairs	$50 (20 % of cost)	$120,000
153.	Sale of Municipal Officers Directory	Municipal Affairs	$3.50 per copy	$1,900
154.	Sale of Maps, Books, etc	Municipal Affairs	Various	$2,000
155.	Angling Licenses	Natural Resources	$6 Resident, $30 Non-Resident	$1,671,000
156.	Live Fish Holding Permit - Live Fish Farming License	Natural Resources	$15	$600

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
157.	Commercial Bait Fishing License Dealer's License	Natural Resources	$50 + $10	$4,500
158.	Commercial Fishing Licenses Operator and Hired Man	Natural Resources	Various Various	$39,500 $32,000
159.	Confiscated Fish Eggs, etc.	Natural Resources	Various	$3,600
160.	Timber Permits	Natural Resources	Various	$158,000
161.	Hay and Grazing Permits	Natural Resources	Various	$2,400
162.	Sawmill and Timber Dealers License	Natural Resources	$10	$1,400
163.	Forest Management Licenses	Natural Resources	Manfor $.929 per cubic metre Abitibi $4.88 per cubic metre	$1,196,700
164.	General Permits	Natural Resources	Various	$4,000
165.	Nursery Stock	Natural Resources	$65 per 1,000	$6,000
166.	Timber Sales	Natural Resources	Various	$768,800
167.	Crown Land Leases	Natural Resources	Various	$60,800
168.	Wild Rice Licenses	Natural Resources	$25	$26,400
169.	Concessionaire Rentals	Natural Resources	2% of Appraisal	$16,300
170.	Lot Rentals Vacation	Natural Resources	2% of appraised market value	$187,000
171.	Garden Plots	Natural Resources	$20 plots, $5 lockers	$5,000
172.	Lot Development Fees	Natural Resources	Various	$7,800
173.	General Permits	Natural Resources	Various	$132,300
174.	Lot Rentals - Vacation Homes Within Parks	Natural Resources	2% of appraised value	$1,696,500
175.	Parks Fees, Lease Transfers, Assignments, etc.	Natural Resources	$10	$4,300
176.	Lot Development Initial Fee	Natural Resources	Actual Development Cost	$151,900
177.	Privately Owned Park Lots	Natural Resources	Various Service Fees	$38,100
178.	Community Private Docks	Natural Resources	$10	$100
179.	Hay and Grazing Permits - Parks	Natural Resources	$3.90/ton	$9,000
180.	Commercial Operators - Lot Rentals - Parks	Natural Resources	Various	$175,800
181.	Cottage Rentals, Hecla, Camp Morton, Fronwood Point	Natural Resources	Various	$74,500
182.	Miniature Golf, Tennis, etc. Fees - Parks	Natural Resources	Various	$34,100
183.	Golf Course Fees	Natural Resources	Various	$377,900

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
184.	Parks Laundry	Natural Resources	$.50 per Wash Cycle $.10 per Dry Cycle	$1,400
185.	Docking Fees Gull Harbour	Natural Resources	$2 $36 per season per Metre of boat length	$1,800
186.	Ski Tow Charges	Natural Resources	Various	$50,000
187.	Parks Land Rent	Natural Resources	Various	$5,300
188.	Camping Permits	Natural Resources	Various	$1,419,900
189.	Winter Storage Rent	Natural Resources	$25 per trailer per winter	$6,200
190.	Park Entrance Fees	Natural Resources	$2 per car, $10 per season	$626,200
191.	Park - Lot Rental, Misc.	Natural Resources	$40 per acre	$8,100
192.	Leases Beaudry Park	Natural Resources	Tenders	$38,100
193.	Well Drilling Licenses	Natural Resources	$10 per rig	$600
194.	Wildlife Certificates	Natural Resources	$7	$441,100
195.	Big Game Licenses	Natural Resources	Various	$1,145,600
196.	Game Bird Licenses	Natural Resources	Resident $7 Non-Resident $45 Wild Turkey $10	$558,000
197.	Fur Royalties	Natural Resources	From $.01 (Badger) to $1.25 (Otter)	$57,000
198.	Trappers Licenses	Natural Resources	Open Area $2 Registered Trapline $3	$28,100
199.	Employee Board	Natural Resources	$2 per meal	$84,400
200.	Select Maps and Prints	Natural Resources	Various	$231,000
201.	Sale of Books	Natural Resources	$1 - $10.50	$1,000
202.	Land Sales	Natural Resources	$100 per lot residential & survey and development costs or appraised market value	$750,000

A wide diversity of fees and charges is evident from the above. An overall rationale is absent and indeed would be surprising in view of the varied history of each of the fee and charge areas. Where is the rationality in a system that recovers 100% plus of the cost of artificial insemination courses; 50% of the cost of securities transaction approvals and 20% of the cost of subdivision approvals?

A more systematic approach is set forth in the recommendations section. The principles which are suggested to guide future fee and charge decisions are as follows:

(1) elimination of nuisance charges where costs of collection exceed revenue;

(2) full cost recovery for regulatory activities where user groups are capable of bearing the burden. eg. Securities Commission;

(3) annual review and adjustment of fees and charges;

(4) consideration on an annual basis of a one year freeze in the level of fees and charges to a sector of the Provincial community facing hardships eg. the agricultural community.

C. New Source Potential

In conducting this review a wide array of possible new revenue sources was considered. The following specific possibilities are discussed as worthy of serious review, although not all are recommended for implementation.

1. Wealth Taxes

Beginning in 1893, succession duties and gift taxes provided a direct taxation of wealth. Provinces imposed their own succession duties from 1893 to 1941 when the federal government undertook national measures while sharing revenues with the provinces. In 1972, the federal government delegated the levies to the provinces. This delegation proved to be the undoing of wealth taxation in Canada. The 'house of cards' situation produced a gradual elimination of succession duties on a province-by-province basis. (eg. Nova Scotia, New Brunswick, and Newfoundland in 1974; British Columbia and Manitoba in 1977).

Even those governments with a strong philosophical attraction to wealth taxes were gradually compelled to eliminate succession duties to stem the flow of business and personal capital to other provincial jurisdictions where the tax had already been eliminated.

No recent efforts to reinstate succession duties have been undertaken in Canada.

In other nations succession duties are well-accepted as part of the taxation system. An OECD report on personal income tax systems indicated that in 1983, seven countries received revenues in excess of .2% of their GDP from estate/inheritance/gift taxes: Belgium, France, Greece, Japan, Portugal, Switzerland, and the United States.

A recent article by Donald Coxe in Canadian Business magazine puts forward an eloquent argument for a return of wealth taxes in general and succession duties in particular.

> *"Let me suggest, however, that no reform is complete without the resurrection of estate taxes....Those taxes should be brought back. It's still necessary to exempt family farms owned by real farming families, and some transition provisions would be needed for small, family-owned businesses. But death taxes are fair taxes, in contrast to income taxes, which are much more likely to discourage growth and savings. Income taxes can't be abolished, but they should not be the centrepiece of the tax system -- whether they are on corporations or individuals.*
>
> *A century ago, the great U.S. capitalist Andrew Carnegie articulated the reasons why a free enterprise society should discourage the accumulation of familial wealth across generations. When he saw how often unearned inheritances had corrupted young people, he vowed he wouldn't stand in the way of his heirs' chances of real, personally earned success. Out of his U.S $415-million estate, he left more than U.S.$400 million to charity (libraries across North America benefit from his beneficence to this day) and just a few million dollars to his family.*

> *A society that encourages entrepreneurship, risk taking and innovation can't afford the luxury of an elite class built on inheritance. That doesn't mean we should institute punitive or confiscatory death taxes. But neither does it mean that the actuarial and genetic luck of having a rich, dead ancestor should be the tax equivalent of winning a lottery.*
>
> *Not only is the concept of tax-exempt inherited wealth economically unsound, it is also deeply anti-democratic. To the extent that the timing of death and the wealth of the testator are unpredictable, that uncertainty should be shared with society at large. Were it not for the federal estate tax, for example, we might not have the Canada Council, which, for all its bureaucratic and nationalistic excesses, has been of some value.*
>
> *The fiscal crisis facing Ottawa and the provinces means that tax reform must include a substantial broadening of the tax base...But the broadening must not be confined to the living. If the only certainties are death and taxes, they should go together. Heaven -- or its alternative -- should not be a tax haven."*

The views of Mr. Coxe and Mr. Carnegie on taxation and inherited wealth are concurred in by this review.

2. Net Income Tax

Because of the myriad of special preferences, deductions and exemptions, an additional point of Provincial Personal Income Tax raises a relatively small amount of revenue (about $13.5 million). For this reason and because of the province's objection to many of the special preferences, the concept of a tax on Net Income has been under internal discussion for some period of time. Net income is a broader income base than Taxable Income.

In its April 1985 Budget, the Government of Saskatchewan introduced a tax on Net Income or a 'flat' tax as it was quickly dubbed. Levied at a rate of 1% on Net Income, the tax raised $78 million in its first full year of implementation. To raise an equivalent amount of revenue would have required a several-point increase in the Saskatchewan Personal Income Tax.

The 'flat' tax was allowed by the Federal Minister of Finance on an experimental basis. The Federal Finance Minister was not sympathetic to an extension or expansion of the experiment in early 1986. However, with the new found Federal Government interest in reform of the Personal Income Tax system, a further experiment may be permitted by the Finance Minister. This may be evident in the decision to extend or not extend the Saskatchewan experiment. This decision is expected in the near future. The Federal Government's willingness or unwillingness to allow a Manitoba Tax on Net Income may be a central issue to its reality as an option.

The criticism of the Saskatchewan 'flat' tax has centered on its unfairness. To a degree, this is a direct consequence of the 'flat', non-progressive nature of the levy itself. An additional problem is that the nature of the Income Tax Act and the tax form result in a number of deductions prior to the net income base definition. For example, business losses including those created by ownership of Multiple Unit Residential Buildings (M.U.R.B.'s) are deducted prior to the net income line, while charitable contributions are deducted after the net income line. The result is that the 1% 'flat' tax is levied for example on charitable contributions but not MURB deductions. A variety of these inequities are inescapable in the addition of a net income levy to the current system. If it were possible to levy the tax on a broader and fairer income base than 'net income' many of these problems would vanish.

However, it is possible to construct a net Income Tax option which has a more progressive impact. For example, a 2% tax on Net Income could be modified in the Manitoba context by the following additional provisions;

ALL FILERS

Income Group	% of Taxpayers in Group %	Average Manitoba Tax Payable (Current) Rules ($)	Average Change 1987 ($)
Under - 7,500	3.9	80	(41)
7,500 - 15,000	30.5	382	16
15,000 - 25,000	34.1	1,016	172
25,000 - 50,000	27.9	2,245	175
50,000 - 100,000	3.2	5,777	420
100,000 & Over	0.5	16,489	420
ALL GROUPS	100.0	1,355	240

The option would result in roughly 14,000 fewer taxfilers (with incomes under $15,000) paying net Manitoba income taxes under the 1987 rules than at present. About 3,000 additional filers (with incomes above $15,000) would pay greater Manitoba taxes than at present.

About 80% of Manitoba taxfilers would pay more Manitoba taxes. The following table shows the impact of the proposed changes on only those taxpayers who pay more as a result of the option.

1987

	Taxpayers	
Income Group	Paying More (%)	Average Increase ($)
Under - 7,500	-	-
7,500 - 15,000	58.6	62
15,000 - 25,000	90.9	195
25,000 - 50,000	99.8	395
50,000 - 100,000	98.9	557
100,000 - Over	62.0	2,061
ALL GROUPS	80.4	256

In conclusion, the net income tax option represents a reasonably progressive, income-related means of raising substantial added revenues. It would also put in place an additional revenue source, which with appropriate modifications to the definition of "net income", could be used to protect provincial PIT revenues from some federal tax-reducing changes (e.g. measures such as the capital gains exemption). As such, the measure appears to be consistent with the objectives of tax reform.

REVENUE EFFECT OF PROPOSED MEASURES

Income Group ($)	Taxpayers (%)	1987 Revenue ($M)	1987 % of Total (%)
Under 25,000	68.5	+33.2	28.8
25,000 to 50,000	27.9	+66.0	57.4
Over 50,000	3.7	+15.8	13.8
ALL GROUPS	100.0	+115.0	100.0

On the corporate income tax imposition of a "net income tax" arrangement would effectively be redundant, since the corporate income tax is essentially a tax on profits or "net income" as it stands currently.

3. Land Transfer Tax/Land Speculation Tax

There are two potential taxation measures which could be imposed over and above the current fees levied by Land Titles for mortgage registrations and land title transfers.

First, a land speculation tax could be imposed as a capital gains tax on realty. Such a tax was in effect in Ontario from 1974 to 1978, imposed at a time when land prices were escalating. Principal residences, commercial properties, and some other properties were exempt from the tax. The measure was discontinued in 1978 for three reasons: much lower than projected revenues, the decline in excess profits due to increases in interest rates, and the negative public reaction to the tax. If Manitoba was to consider a similar tax, it is unlikely that the revenue collected would be significant. There would also be the same negative consequences faced by Ontario in response to such an action.

The second potential measure is a land transfer tax levied on the purchaser. Ontario currently has such a tax in place, with rates at the levels of: 1/2 of 1% on transfers of properties valued at up to $55,000, 1% on properties valued at $55,000 to $250,000, and 1-1/2% on single family dwellings or duplexes valued at more than $250,000. To determine with some accuracy the potential revenue of applying a similar tax in Manitoba, the estimated average annual transfer value in each category ($0 - $55,000; $55,000 - $250,000; $250,000 and over) would have to be known. That information is not available on a province-wide basis. However, if each of the estimated 100,000 transactions annually has an average value of $50,000, a 1/2% tax should net the province $25 million in additional revenues and cost the average purchaser $250.

The appeal of such a tax would be its application to wealth. The land transfer tax would only roughly approximate a wealth tax in its effect. However, in view of the connection between wealth and more expensive dwelling units it can be taken as tax measure with a rough correlation to wealth.

Imposition at a higher rate (eg. 1%) might be acceptable if it replaced the existing basic fees charged by Land Titles. Graduated rates such as Ontario would be progressive and could be further considered.

4. Lotteries and the Taxation System

a. Lottery Prizes

The special tax exemption on lottery winnings has recently come under discussion in Ontario. An Ontario study on tax expenditures in that province estimated that taxing lottery winnings as income would return $72 million per year to the Ontario Treasury.

While precise numbers are not available regarding total lottery winnings in Manitoba, an estimate of $35 million annually is considered reasonable, which would provide revenues of approximately $3.2 to $3.5 million to the province if taxed as income. However, if the prizes are taxed as income, a change to the base of the current income tax arrangement would be required. This change would require Federal legislative changes to the Income Tax Act. An alternative would be to levy a direct special tax on lottery winnings. At a 20% rate, such a tax would bring in $7 million in revenues.

b. Lottery Revenues

At present, lottery revenues do not flow to the Consolidated Revenue of the Province. This is due to the relatively recent government management of the total gambling industry and the pre-existing allocations of revenues from that industry to a wide variety of community-based organizations. Total lottery revenues have grown at a much more rapid rate than other government revenues, resulting in a rapid growth in revenues for those particular activities and organizations funded by the Manitoba Lotteries Foundation. For example, in 1984-85, Lottery Foundation revenues increased to $65 million and profits increased to $22.86 million -- an increase of 45 percent as compared to growth in total government revenues of 6.1 percent between 1983/84 and 1984/85. While basic necessities such as health and education have been receiving moderate increases, other activities have had dramatically more rapid revenue increases due to the lottery source of their funding and for no other reason. This reality would seem difficult to explain rationally.

Reform to address this situation should be considered.

c. Lottery Expansion and Competition

One of the issues raised with the Working Group on Taxation Reform is the loss of economic activity and tax revenue suffered by Manitoba as a result of trips by Manitobans to gambling centers such as Las Vegas. Expansion of gambling activity in Manitoba, specifically a permanent, major casino facility was suggested as a remedy. This idea has been discussed internally and a range of views elicited. It is considered beyond the scope of this review to undertake the detailed feasibility work necessary to determine the viability of the idea. The issue of acceptability by the Manitoba community would also merit serious consideration.

5. Crown Corporations

A wide array of differential tax treatment exists for the various Crown Corporations. For example, the Manitoba Public Insurance Corporation pays Corporation Capital Tax while Manitoba Hydro and the Manitoba Telephone System are currently exempt. On the other hand, a 6% tax is levied on hydro and telephone bills but not on automobile insurance premiums. More consistent treatment should be considered. In particular, the extension of the Corporation Capital Tax to all Crown corporations and the indexation of Water Power Rentals could be sources of increased revenue.

CROWN CORPORATIONS	TAX ON GOODS/SERVICES	CORPORATION CAPITAL TAX	OTHER CHARGES OR ITEMS
MANITOBA HYDRO	6% Revenue Tax	EXEMPT	Water Power Rentals to Province.
MANITOBA TELEPHONE SYSTEM	6% Revenue Tax	EXEMPT	
MANITOBA PUBLIC INSURANCE CORPORATION	EXEMPT	TAXABLE	Insurance Corp. Tax (on all premium income.)
MANITOBA LIQUOR CONTROL COMMISSION	12% SALES TAX	TAXABLE	Net Profits to Province

6. Luxury Tax

The Working Group discussed the possible options for a luxury tax or a higher rate of Sales Tax on luxury goods. A document on this subject was prepared by staff of the Department of Finance and reviewed by both the Working Group and the Special Committee. A summary of the main points in this document may serve to review the basic argument. The view put forward is that because essentials such as food are exempted from the Retail Sales Tax, there already exists a form of 'luxury' tax.

a. Luxury is defined by the Oxford English Dictionary as follows:

> *Habitual use of what is choice or costly, whether food, dress, furniture or appliances. Refined and intense enjoyment.. Sumptuous and exquisite food or surroundings. Something which conduces to enjoyment over and above the necessities of life. Hence, now, something which is desirable but not indispensable.*

It would seem most useful to extract the definitions "something which conduces to enjoyment over and above the necessities of life" and "something which is desirable but not indispensable" for consideration of a luxury tax.

b. One definition of luxury is the culmination of two criteria: goods and services, the purchase of which show substantial ability to pay; and goods and services, the purchase of which can easily be postponed. However, any definition of luxury is ultimately arbitrary.

c. The Retail Sales Tax as it exists today could be viewed as a tax on non-essentials, things "the purchase of which can easily be postponed." As the Retail Sales Tax Act taxes all purchases of tangible personal property, it is only necessary to examine the exemptions to see if, in fact, any items of necessity are taxed under the Act.

d. One issue to be noted is that what is luxury to one particular person is not necessarily luxury to a second, and the distinction is not necessarily determined by financial resources available. For example, a person might live a rather meagre existence in order to save for a very desired acquisition. The purchase itself might appear to be luxurious but since he had given up items which might otherwise be considered essential, it is debatable whether in such circumstances such a purchase can be defined as being a luxury. Luxury, therefore, is not totally necessarily dictated by the item purchased but can be a matter of preference in the eyes of the purchaser.

e. If luxury is defined as having the ability to pay, the issue arises as to whether it is having the ability to pay the credit charges rather than really having the ability to afford the article in question.

f. Ability to pay might be utilized as a consideration in the definition of luxury by utilizing price as a criteria and deeming higher priced models to be luxuries. Under this assumption, automobiles might not attract luxury tax until they are priced in excess of say $15,000, TVs in excess of $500, clothing in excess of a certain amount, etc. Once again, preference becomes a problem inasmuch as a person or family unit might own three 1986 Malibous at a cost of say, $14,000 each, whereas another family unit might purchase one used Lincoln for an amount in excess of $15,000. Which one has expressed a "certain ability to pay?"

g. It would appear necessary if luxuries are to be taxed at a higher rate to first define necessities and to adjust the current Act to exempt such items accordingly (providing such changes are administratively possible). Those items not exempted would be deemed to be luxuries and the current rate could be adjusted upward. Such an approach would require the whole Act to be rewritten and supporting philosophies to be addressed, and would be a dramatic departure from the basis of the current Act and legislation in other provinces.

h. As an alternative to a "luxury tax" the current base could be widened and the rate adjusted. However, this might be very difficult for the public to accept, very difficult for vendors to handle, and very costly and difficult to administer.

The Working Group tends to concur with the sentiment if not all of the argumentation of these findings on the luxury tax. Further comments are to be found in the recommendations section.

V. TAX EXPENDITURES

An emergent and extremely important issue in tax policy is the prevalence of tax expenditures. Simply stated, tax expenditures are deviations from a broad tax base which forego the collection of taxes otherwise due. In a recent report, the Auditor General of Canada estimated that 35 to 50 billion dollars of tax expenditures existed in the Federal taxation system.

At a Provincial level the Manitoba Government published the following list of tax expenditures in its 1986 Budget and Saskatchewan its own slightly different list in 1985.

Manitoba Tax Expenditure Account

PERSONAL INCOME TAX	1983	1986
	($ millions)	
Deductions:		
- Contributions to:		
° Registered Pension Plans	26.3	32.9
° Registered Retirement Savings Plans	27.2	29.4
° Canada Pension Plan	11.5	15.5
- Employment expense deduction	23.1	25.1
- $1,000 investment income	23.6	24.8
- Unemployment insurance	14.0	19.5
- Charitable donations	12.8	18.2
- Other employment expenses	5.4	6.7
- $1,000 private pension income	5.2	5.5
- Union dues	4.7	5.4
- Spousal deductions transfers	3.3	3.6
- Contributions to Registered Home Ownership Plans	3.1	-
- Tuition fees	2.0	2.9
- Medical expenses	1.5	2.2
- $50 per month for education	1.2	1.3
Exemptions:		
- Spousal/equivalent exemption	35.8	38.2
- Children and other dependents	24.3	26.0
- Age exemption and disability deduction	22.1	27.0
- $500 of research grants, bursaries and scholarships	0.2	0.2
Exclusions:		
- Employee benefits	23.6	27.9
- Preferences for capital gains	13.5	26.1
- Life insurance/health benefits	17.8	21.4
- Veterans'/services' allowances and pensions	5.8	6.2
- Northern allowances	0.5	0.5
Tax Credits:		
- Dividend gross-up and tax credit	15.8	22.9
Other Provisions:		
- 5-year block averaging provision for farmers and fishermen	0.5	0.5

CORPORATION INCOME TAX

	1983	1986
	($ millions)	
Deductions:		
- Small business deduction (lower tax rate)	10.4	14.4
- One-half taxation of capital gains	9.6	12.8
- Excess capital cost allowance over book depreciation	9.6	12.5
- Fast write-off of Canadian exploration and development expenses and depletion allowances	4.3	5.7
- Patronage dividends by Co-ops and Credit Unions	1.1	1.5
- Charitable donations	1.0	1.4
- Scientific research expenditures	1.0	1.3
Tax Credits:		
- Manitoba Manufacturing Investment Tax Credit	-	5.0

RETAIL SALES TAX

Exemptions:		
- Food	66.0	89.6
- Personal services	15.9	18.3
- Farm machinery and repair parts	9.1	11.5
- Meals under $6.00 served in restaurants	7.4	10.5
- Agricultural feed and livestock	7.6	9.5
- Drugs and medicines	4.7	5.5
- Children's clothing and footwear	3.8	4.3
- Books, newspapers and periodical publications	3.3	4.1
- Medical supplies, appliances and equipment	3.1	3.7
- Public transportation (excluding air)	2.7	3.6
- Vehicle resale and mobile, ready-to-move and modular homes	2.1	3.1
- Thermal insulation materials and energy-saving devices	2.1	2.8
- Personal hygiene products	0.9	1.0

FUEL TAXES	1983	1986
	($ millions)	
Exemptions:		
- Marked gasoline and motive fuel	30.9	33.8
Taxed at Lower Rates:		
- Clear diesel for use in locomotives	6.6	-
- Marked diesel fuel for off-highway use	1.4	1.6
- Gasohol	1.6	1.5

LEVY FOR HEALTH AND POST-SECONDARY EDUCATION

Exemptions/Reductions:		
- Employers with payrolls under $50,000/$75,000	-	7.0

CORPORATION CAPITAL TAX

Exemptions:		
- Corporations with taxable capital less than $1,000,000	7.5	13.0
- Some Crown Corporations	6.0	10.5
- Credit Unions and Caisses Populaires	2.6	4.9
- Co-ops	2.2	3.9
- Family farm corporations	0.3	0.6

Government of Saskatchewan
1986 Tax Expenditure Account
(Value of Tax Expenditures in Millions of Dollars)

Sales Taxes

Exemptions

1. Clothing, footwear and yard goods	$ 23.0
2. Children's clothing and footwear	3.4
3. Construction services	99.8
4. Drugs and medicines	6.8
5. Electricity - residences, farms and recreation facilities	6.5
6. Farm machinery and repair parts	35.4
7. Fertilizer, pesticide and seed	27.2
8. Food	79.9
9. Personal services	12.2
10. Reading materials	4.3
11. Services for repairs to personal property	14.0
12. Used goods	11.8

Individual Income Tax

Exemptions

1. Basic exemption	$215.8
2. Marital exemption	28.3
3. Age exemption	18.5
4. Exemptions for dependants	22.0

Employment Expense Deductions

1. General employment expense deduction	$ 19.3
2. Annual union, professional or like dues	4.7
3. Other employment expenses	5.3

Pension Deductions

1. Canada Pension Plan contributions	$ 14.7
2. Registered Pension Plan contributions	18.6
3. Registered Retirement Savings Plan contributions	31.9
4. $1,000 pension income deduction	2.5

Medical and Charitable Deductions

1. Medical expenses	$ 1.4
2. Charitable donations	12.4

Education Deductions

1. Tuition fees	$ 1.4
2. $50 per month education deduction	0.7

Other Deductions

1. Unemployment insurance premiums	$ 16.6
2. Forward averaging deduction	10.8
3. Child care expenses	2.4
4. $1,000 interest and dividends deduction	19.9
5. Moving expenses	1.2
6. Carrying charges	5.3
7. Dividend tax credit	39.2
8. $500,000 capital gains exemption	30.0

Provincial Tax Measures	
1. $260 tax reduction	$ 37.0
2. $50 per dependent child tax reduction	4.9
3. $50 per senior citizen tax reduction	1.6
4. Saskatchewan Tax Incentives Program	
— Venture Capital Tax Credit	17.0
— Livestock Investment Tax Credit	5.0
— Livestock Facilities Tax Credit	4.5
— Stock Savings Tax Credit	5.0
— Labour-sponsored Venture Capital Tax Credit	0.5
5. Savings from indexing (see Note)	5.5

Note: The savings from indexing are calculated for the 1986 tax system compared to 1985 and do not represent the cumulative savings since indexing was introduced in 1974.

Corporation Income Tax

1. Lower tax rate for small business	$18.8
2. Small Business Manufacturing and Processing Tax Reduction	4.0
3. Tax holiday for new small business corporations	2.0
4. Saskatchewan Royalty Tax Rebate	6.0
5. Resource Allowance	34.9
6. Fast write-off for Canadian exploration and development expenses and depletion allowances	35.2
7. Excess capital cost allowance over book depreciation	44.3

Corporation Capital Tax

1. General exemption of $10,000,000	$20.2
2. Exploration and development expense allowance	2.5
3. Exemption for federal Crown corporations	5.7
4. Exemption for co-operatives, credit unions, family farm corporations and insurance companies	3.7

In its 1986 review of tax expenditures, the Manitoba Department of Finance compiled the following analysis of the magnitude of direct expenditures vs. tax expenditures in the 1983-85 period.

MANITOBA
DIRECT EXPENDITURES AND TAX EXPENDITURES
BY EXPENDITURE CATEGORY, 1983-85

($ Millions)

EXPENDITURE CATEGORY	DIRECT EXPENDITURES			TAX EXPENDITURES		
	1983	1984	1985	1983	1984	1985
Education	618.6	654.4	663.3	6.2	7.3	7.5
Health	1,023.1	1,082.0	1,136.4	12.8	14.5	15.7
Economic, Social and Employment Security	449.8	515.6	566.9	262.6	273.0	282.0
Economic Development	580.4	600.6	593.2	270.5	305.9	296.7
Direct Local Government and General Government Services	327.8	339.4	395.5	0.1	0.1	0.1
Other	282.0	265.7	263.0	1.0	1.1	1.1
TOTAL	3,281.7	3,457.7	3,618.3	553.2	601.9	603.1

As could be seen in this chart, the totals for tax expenditures are significant, amounting to nearly 14% of direct expenditures.

Finance qualified their findings thusly:

> *"It is important to emphasize that an accounting of tax expenditures does not constitute an assessment of government tax policy. In fact, the accounting does not question the desirability of any of the goals of the current tax provisions or of their effectiveness in achieving those objectives. It is not a list of tax loopholes or areas for tax reform. Its purpose - at this stage - is simply to provide some of the basic information on which such assessments can be based."*

A careful review of the Manitoba and Saskatchewan lists underscores the major concern about the nature of tax expenditures. Because they are for the most part buried in the legalese and fine print of tax legislation they do not receive the same intensity of legislative or parliamentary scrutiny as direct expenditures. Often they are completely apart from the estimates review process which, at least provincially, has the capacity and frequently the perseverance to question tiny direct expenditures. Were tax expenditures capable of being scrutinized effectively the public policy concerns about them would be greatly reduced.

VI. THE FEDERAL-PROVINCIAL RELATIONSHIP

As noted in a previous section, the revenue received by the Provincial Government from the Federal Government takes several forms, including:

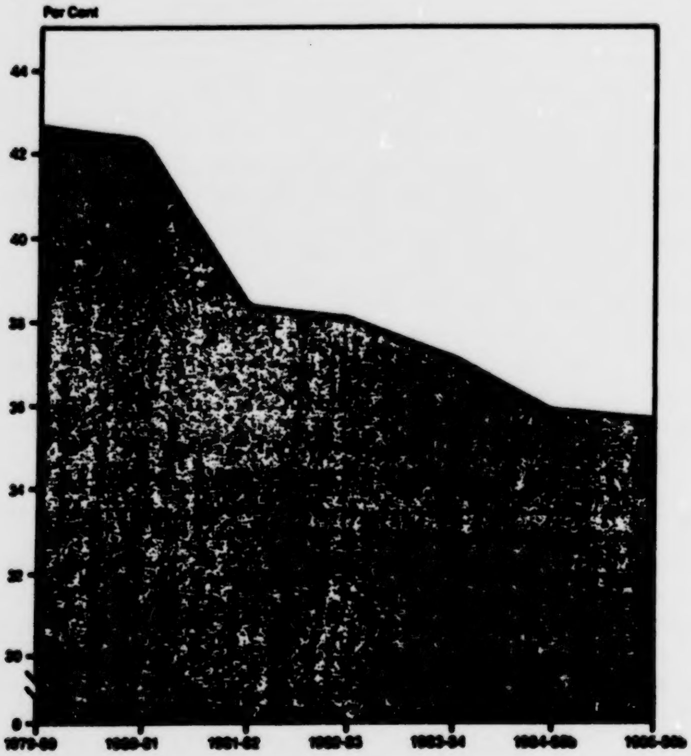
		1986/87
o	Shared Cost Programs	232.0 million
o	Equalization	510.8 million
o	Established Programs Financing (EPF)	434.0 million

In addition, the Federal Government collects Provincial Corporate and Personal Income Tax without administrative charge to the Province.

In total the Province receives 35% of its revenue from the Federal Treasury. Recent trends have been towards a decline in the Federal share as noted below.

Federal Transfer Payments to Manitoba, 1979-80 to 1985-86

Percentage of Total Provincial Revenue



b—budget

Source: Manitoba Department of Finance

A. Current Federal Intentions Regarding Tax Reform

Since Finance Minister Wilson's summer announcement on tax reform the Federal Government has added a third element to the two reforms already underway. A review of the Personal Income Tax system will now be undertaken in addition to the reviews of the Federal Sales Tax and the Corporate Income Tax already in progress. Current indications are that the three components are now seen as a "package" to be unveiled together although not necessarily implemented simultaneously.

The federal work is at various stages of preparedness. The Business Transfer Tax which will replace the existing Federal Sales Tax is designed and only requires final decisions on rate levels.

The Provinces might be offered a share in B.T.T. revenues _if_ they agreed not to occupy tax room created by the Federal Government lowering personal income tax rates. This proposal might have the positive result of reversing the national trend of a shift in tax burden from corporations to individuals. However, it would do nothing to remedy existing inequities in the corporate and personal income tax systems. Without knowing the amount of net incremental revenue available to the Province it is difficult to conclude a finding on this aspect of the Federal reform. A major "hidden" tax such as the Business Transfer Tax is certainly, at best, a mixed blessing with lack of visibility a more pleasant aspect for its sponsors than for Canadians generally.

B. Equalization

One of the most important financial bonds of the Canadian Confederation is the principle of the Equalization program. Enshrined in Section 36 of the Canadian Constitution the intent of equalization is to ensure that provinces have sufficient revenue to provide reasonably comparable levels of services to Canadians living in the divergent regions of our nation at reasonably comparable levels of taxation. First advocated by the Rowell-Sirois Commission the principle has been widely if not universally accepted in Canada. The debate is now over the reality of equalization as delivered by the program and formula. Subject to Federal-Provincial negotiation and general consensus, if not unanimity, the basis of the equalization formula had broad support until the 1982 amendments by the Federal Government. Proceeded with unilaterally by the Federal Government, the new formula eliminated the all-province national average and implemented a so-called "representative average" of only five provinces (B.C., Saskatchewan, Manitoba, Ontario and Quebec).

Concern and vigorous protest by the Provinces over the impact of this change caused the Federal Government to put in place transition arrangements to cushion the impacts.

Manitoba faced the largest percentage cut in its support level and as a result mounted a most vigorous and eventually successful effort to have transitional assistance extended. The following chart indicates the revenue from Equalization received by Manitoba in recent years and the forecast for 1986/87 and 1987/88.

Year	Equalization (millions of $)	Total Revenues (millions of $)	Equalization as a % of Total Manitoba Revenue
1981/82	398.6	2,180	18.3
1982/83	439.1	2,409	18.2
1983/84	466.1	2,797	16.7
1984/85	479.6	2,924	16.4
1985/86	470.3	3,115	15.1
1986/87	510.8*	3,380*	15.1
1987/88	458.0*	N/A	N/A

* estimate

As the above numbers demonstrate, equalization is of vital importance to Manitoba. It comprises about 15% of of total revenue and over 40% of total Federal transfers to the Province. Manitoba will need to remain a vigorous proponent of an equalization formula which is consistent with its original principles.

The 1982 changes left Manitoba as the Province "hardest hit". This situation has been ameliorated by temporary supplementary payments but a change in the formula will be required to maintain both the principle and the reality of equalization.

C. Established Programs Financing

"We had many things to consider (in our decision to reduce the rating) and the level of federal transfer payments was one of them."

Joseph O'Keefe,
Assistant Vice President
International Finance,
Standard and Poor's,
as quoted in the
Winnipeg Free Press
August 20, 1986

"The federal government plans to slash $2 billion from federal health and higher education transfers annually by 1990/91."

Manitoba Budget
1986

There is no doubt that Bill C-96 and the Federal decision to reduce the growth in Fiscal Arrangements will add to the Province's difficulties in affording quality health care and post-secondary education services. A projected loss of some $240 million over the next five fiscal years is a major factor in the Province's fiscal situation. While other Provincial jurisdictions are also experiencing difficulties, the Federal Government's resolve in pursuing deficit reduction as an objective will create difficulty in altering the Federal decision.

As has been noted by the Province on numerous occasions these decisions come in a context where health costs are rising due to the relentless pressure of an aging population and where post-secondary education requires strategic investments to be relevant to the country's needs. A broad coalition both within Manitoba and nationally support the view that increased requirements for financing health and higher education are a reality which is not well served by the Amendments of the Federal Government to the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977.

Our findings in this regard are entirely in harmony with Setting Priorities Straight - Manitoba's Position on Federal Reductions in Funding Health and Higher Education published by the Province in June, 1986. As that analysis concluded so does the Working Group conclude:

"Bill C-96 will deeply and adversely affect provinces' ability to sustain services. Its introduction clearly suggests to provinces that the unilateral actions so deplored in previous administrations can be expected to continue in this one. It also sets the stage for acrimonious debate on many aspects of the "Nielsen Report". But, most of all, it is unnecessary. The federal government has moved to secure $35 billion in new tax revenues by 1990/91. At present, some 11.1% of federal revenue goes to health and higher education. If only 10% of the new funds were so allocated, needs could be met and cooperation in trust would be once again possible. The Government of Manitoba therefore calls upon your Committee to recommend the removal of Bill C-96 and its replacement with federal leadership, planning and fair federal funding for health and higher education."

VII. THE MUNICIPAL INTERFACE

Over and above the tax credit payment programs, the Manitoba Government's primary means of transferring revenues to the local government level has been the Provincial-Municipal Tax Sharing arrangement, which in 1986 involved total payments of $35.5 million, or a basic per capita payment of $30.25 plus supplementary per capita payments ($4.50 per capita for smaller centres and $6.50 for centres with above 5,000 population). The revenues are collected from personal and corporate income taxes (2.2% of the former and 1% of the latter).

Other major transfers of funds to the local government level are the $47.6 million in operating and capital grants paid to the City of Winnipeg, the $24 million paid as grants to municipalities in lieu of taxes (which are supplemented by similar payments made by provincial Crown corporations), and the $14 million Local Government General Support Grant.

Added to the cost of the property tax credit programs, these transfers total more than $200 million in 1985-86. Considering the sizable impact of provincial revenue transfers to municipalities, this is an area requiring serious attention in any review of the Province's revenue situation. There are a number of issues associated with the direct and indirect transfer of funds to municipalities; however, the most significant potential for major changes involves the property tax credit programs.

A. Options for changes to the Manitoba Property Tax Credit Programs

The current system of property tax relief provided through the tax credit programs represents a significant reduction in effective property and school tax burdens for all groupings of households and is quite progressive in its overall impact. The cost of the program is projected to be $85.5 million in 1987-88: $75.5 million through the Resident Homeowners' Tax Assistance Program ($325 minimum credit) and $10 million through the Pensioners' School Tax Assistance Program (up to $175 additional relief).

Options for reducing this program cost to the Province must be reviewed in the context of the impact of reassessment, particularly the impact in Winnipeg. Although the City of Winnipeg will be empowered to cushion the impact (i.e. through the application of measures to avoid the transfer of tax burden from commercial to residential property), it is not clear that the action taken by the City will be sufficient for all homeowners facing a significant property tax increase. Reduction or elimination of the minimum $325 credit will translate into a significant tax increase, especially when combined with any increases resulting from the reassessment.

There are a number of options which could be taken by the Province. Noted with the options are the concerns associated with each.

1. **Eliminating the Tax Credits**

   - would result in a saving of $85.5 million in 1987-88 and greater amounts in subsequent fiscal years
   - would inevitably result in a more regressive property taxation system, particularly for low income groups

2. **Eliminating or Reducing the $325 Minimum**

   - would result in a 1987-88 saving of $75.5 million if eliminated entirely
   - would mean the effective removal of the Resident Homeowners' Tax Assistance Program
   - would not affect the property tax credit for homeowners with less than $20,000 family income and senior citizens with less than $30,000 family income
   - would result in reduced property tax credits for homeowners and tenants with $20,000 - $52,500 ($30,000 - $63,500 for seniors) net family income
   - the time lag in implementation would reduce savings to the Province and become fixed at approximately $23 million annually

3. **Eliminating or Reducing the Pensioners' School Tax Assistance Program**

   - would result in a 1987-88 saving of $10 million and an additional $1.8 million in 1988-89 in the tenants' component of the program
   - would impose a significantly increased tax burden on seniors if combined with elimination of the $325 minimum.

4. **Imposing a Minimum Tax Payment Level**

   - would reduce property taxes to a number other than zero
   - at a $50 level, would result in $6 million in savings annually
   - savings would come primarily from low income homeowners and disproportionately from tenants

B. The Property Tax Credit Linkage with Education Funding

The property tax credit is often included in the calculation of the Province's "indirect support" for education. As a result, reductions in the tax credit could be viewed as reduced funding for the Province's education system.

C. The Property Tax Credit Indirect Transfer to Municipalities Versus Direct Local Government Support

The property tax credit programs have significant advantages over general direct grants to local governments. First, they are restricted to homeowners and tenants, while direct grants become across-the-board mill rate reductions benefitting commercial properties, secondary residences, and other non-principal residence property. Secondly, being targetted so specifically, the property tax credits are less expensive than the broader-based effort resulting from a direct general grant: the equivalent current mill rate reduction for homeowners and tenants would cost $160 million or twice as much as the 1987-88 total if applied to the broad base of properties through a general grant.

D. Disqualifying Social Allowance Recipients and Nursing Home Residents from Receiving the Tax Credit

There would be distinct difficulties in attempting to enforce exclusions of this kind from a universal payment which is dependent only on taxfilers' incomes. In addition, there would be significant identification problems in determining which individuals should be ineligible (eg. temporary versus permanent social allowance recipients). Lastly, the linkage between the tax credit and the rates set for nursing home residents cannot be ignored; if the credit was eliminated, upward rate adjustments could be expected.

E. Elimination of Local Government General Support Grant

Eliminating this (1986) $14 million grant cost to the Province would in effect force local governments to raise additional revenue. The cost could be expected to be absorbed by the municipalities levying between 4 and 4.5 mills in increased property taxes.

In conclusion, the options for cost reductions in the area of municipal transfers are significant in both number and impact. The most acceptable course of action appears to be a reduction of the $325 minimum to a lesser amount. The potential savings to the Province are noted below:

Minimum	($ Millions) Savings 1987-88	($ Millions) Savings 1988-89	($ Millions) Savings 1989-90
$275	9.0	7.0	7.0
$225	18.0	12.5	12.5
$125	33.0	19.0	19.0
$ 0	54.0	22.0	22.0

(Assumes Senior Citizens Exemption)

VIII. REFORMING THE INCOME TAX SYSTEM

The major findings of the Working Group on Taxation Reform pertaining to reform of the income tax system are reported in the following section.

A. Corporate Income Tax

The major findings on the Corporate Income Tax are that the absence of a sufficiently broad-base and a myriad of special preferences are the major problems as noted in two recent documents.

A recent Federal Report Account of the Cost of Selective Tax Measures, Department of Finance, August 1985, had the following comment on the Corporate Income Tax Base.

"As in the case of the benchmark individual income tax system, the neutrality criterion would imply that the tax base under the corporate income tax benchmark would be a comprehensive measure of income.

For corporations, the comprehensive income tax base would imply the inclusion in income of the total value of all receipts or receivables of the firm, less the total amount of current costs associated with earning that income and an amount representing the value of the physical depreciation of the corporation's productive assets.

The present tax system departs from this benchmark in the following general respects. First, capital cost allowance rates for tax purposes are generally higher than the rate used for normal accounting purposes or the rate at which depreciation actually occurs. In specific cases (e.g. machinery and equipment used in manufacturing and processing), the capital cost allowance rates are set deliberately high to stimulate investment in these assets. Second, certain forms of income are excluded in part (e.g. one-half of capital gains). Third, deductions are permitted for certain expenses unrelated to the business activity of the corporation (e.g. charitable donations) or in excess of actual costs (e.g. the 50 percent allowance for incremental R & D expenses provided until 1983). Lastly, immediate deductions are permitted for certain expenses which relate to business activity in a subsequent period (e.g. certain prepaid expenses)."

Tax Probe '86 (a federal New Democratic Party task force which held public hearings across the country on all aspects of the Canadian taxation system) had a much blunter conclusion --

"Tax Probe '86's major conclusion from its series of hearings is that Canada's existing corporate tax system is a chaotic, unsystematic, unplanned, ad hoc collection of subsidies, loopholes, rate exemptions, special credits and special allowances which defies logic and all but beggars description. This may seem like a harsh and, perhaps, overly partisan judgement, but it is one which has been reached not just by us, but by virtually all the tax experts and interested groups to whom we spoke.

The corporate income tax system's primary role as a generator of revenues with which to pay for government services has been undercut, particularly since 1971, by a proliferation of tax expenditures, by which we mean special provisions for rate reductions, exemptions, deductions and the like which have involved a loss of public revenues which would otherwise have been collected and thus deserve to be analysed and justified in the same way as normal, budgetary expenditures.

Many of these special measures were designed to stimulate investment -- and hence growth and jobs -- by reducing the real cost of new capital spending by corporations -- but it is clear from evidence gathered by Tax Probe '86 that few, if any, criteria exist to judge whether such measures have worked. There is, indeed, considerable evidence to the contrary, and we have found that there is now a surprisingly broad consensus among tax experts and businessmen that we need a simpler and less discriminatory system which would allow "the market" rather than the tax system to determine appropriate levels of investment...

...A surprising preliminary conclusion to be drawn from the Tax Probe'86 hearings on the corporate tax system is the near unanimity that the many changes introduced since 1972 have not well served the stated objectives of building a more productive and dynamic economy with high and stable levels of employment. We found few -- we could say no -- defenders of the existing system. Indeed we have had great difficulty finding a tax expert or businessman willing to defend a single existing corporate tax expenditure program."

Tax Probe '86 have plenty of company in their assault on the existing corporate tax expenditure program. In his 1986 report the Federal Auditor General had the following parallel comments, which pertained to tax expenditures in both the Corporate and Personal Income Tax Systems:

"Risks in Using the Income Tax System for Delivering Programs

4.19 Our examination has led us to conclude that the Income Tax Act is a high-risk statute to use for delivering programs. The Government's failure to act in a timely manner to eliminate identified taxpayer-induced avoidance mechanisms has caused hundreds of millions of dollars of revenue losses.

4.20 Our examination of the nature of the tax system led us to conclude that the risks are high in using the Income Tax Act to deliver programs. The inherent risks associated with tax spending, which may be present but not to the same degree in comparable forms of direct spending, are listed below:

- *program costs are open-ended;*
- *there are "grandfathering" or closing costs;*
- *it is often difficult to focus on the desired target;*
- *taxpayers develop avoidance mechanisms;*
- *the tax administration process is designed to encourage taxpayers to comply with the Income Tax Act rather than to ensure that program objectives are met;*
- *a variation in the tax rate structure can change the effect of a tax measure;*
- *compliance problems have a negative impact on federal and provincial revenues;*
- *co-ordination of spending plans is hindered; and*
- *because costs are hard to monitor, budget control becomes difficult."*

The Federal Government has introduced an Alternative Minimum Tax on the Personal Income Tax side. The Manitoba Government has suggested consideration of a parallel Minimum Tax on the Corporate side. On a provincial basis, Manitoba has ensured a type of minimum tax on corporations through its Corporation Capital Tax.

B. Personal Income Tax

The Provincial Income Tax of 54% (2.2% for municipal purposes) is levied on the base of Basic Federal Income Tax payable. Therefore, any exemptions, deductions or credits against Federal Income Tax implemented unilaterally by the Federal Government affect the Province's revenues.

Often the philosophical basis for new Federal tax measures is not shared by the Province and the revenue loss disrupts the Province's ability to manage its fiscal situation.

In the past and at present, there are a number of Federal Personal Income Tax measures which reduce Provincial Revenues and are not compatible with the Province's views on tax fairness and equity. These include:

1. Exemption for Capital Gains

   The Federal Government in its 1985 Budget introduced an exemption from income taxation for capital gains. The exemption is to be phased in over six years to reach $500,000 in 1990 (1985 - $20,000, 1986 - $50,000, 1987 - $100,000, 1988 - $200,000, 1989 - $300,000, 1990 - $500,000). Capital gains above the exemption level will continue to be taxed at 50% of the rate applicable to earned income. The cost to the Provincial Treasury of these two provisions is estimated to be $26.1 million in 1986. Due to the phase-in of the $500,000 exemption the cost in later years will likely be substantially higher. The inequity in the measure is evident and favours wealthy investors over other tax filers.

2. Scientific Research and Development Tax Credit

   Although the "quick-flip" aspect of this provision which caused the worst abuses has been eliminated, the S.R.T.C. must be regarded as the most blatant recent example of the folly of tax expenditure policy at the Federal level. Current estimates place the total cost at several billion dollars with a great deal of the subsidy flowing to office buildings and luxury automobiles rather than research and development. As the Federal Auditor notes, "The revenue drain associated with the Scientific Research Tax Credit was fuelled by taxpayers who bore little or no risk." Grandfathering the SRTC was noted by the Department of National Revenue to add an additional $1 billion to its total cost.

3. Non-taxation of one-half capital gains income realized after 1971

   This provision had a cost nationally as follows:

1979	$570 million
1980	750 million
1981	570 million
1982	265 million
1983	440 million

In a five year period some $2.6 billion dollars of tax expenditure nationally resulted from this single provision.

These are but three examples, however blatant, among dozens that could be cited. All have the same derivation and motive noted early in this Report - the attempt to achieve investment stimulus objectives by way of the tax system. Equally clear is the Auditor's assessment of the inefficiency and lack of accountability which is a consequence of these tax expenditures. Of greater concern is the inequity created among taxfilers with similar incomes who, as a consequence of these measures, end up paying widely varied levels of tax. As noted earlier in the report, there are also the extremely unfair and regressive expenditure cuts brought about by resultant fiscal pressures on governments.

C. Initiatives Outside of Canada

1. United States

> *"Over the course of this century our tax system has been modified dozens of times in hundreds of ways. Yet most of those changes didn't improve the system, they made it more like Washington itself: complicated, unfair, cluttered with gobbledy gook and loopholes designed for those with the power and influence to hire high-priced legal and tax advisors."*

Ronald Reagan
President of the United States
May 28, 1985

With this statement the President of the United States embarked on a campaign to reform the U.S. tax system which resulted, after prolonged debate, in the adoption of reform measures in October of 1986. The major elements are as follows:

- reduction in the number of tax brackets and in marginal rates for all tax filer groups;
- a shift of $120 billion of the tax burden from individuals to corporations over the next five years;
- cancellation of dozens of special provisions to encourage saving, energy conservation, investment and a host of other goals;

- maximum rates of 33% for individuals and 34% for corporations;
- 6 million low income families are dropped from tax rolls;
- marginal tax reductions for middle income groups;
- continuation of rate cuts for wealthy (from 77% to 50% in 1982 and now to 33%);
- capital gains to be treated as ordinary income;
- reduced depreciation rates for commercial real estate;
- a 20% alternate minimum tax is imposed on corporations.

The American reform is premised on several findings which have applicability in Canada. The failure of investment incentives to generate growth or stimulate investment was a general conclusion which provided support for much of the reform.

2. Japan

On October 28th the Prime Minister of Japan, Yasuhiro Nakasone, received proposals from the country's Tax Council to undertake a sweeping reform of that nation's tax system. If adopted the reform would have the following elements:

- a value added tax on the sale of goods,
- elimination of tax incentives to encourage saving,
- reduction in tax rates from 10.5% to 5% for low wage earners,
- reduction in tax rates from 88% to 65% for high income earners,
- lower taxes for large corporations.

It is likely that it will be 1987 before the tax reform package reaches The Japanese Parliament.

D. Current Tax Collection Arrangements

1. Problems with Existing Arrangements

As set out in an earlier (1985) Department of Finance review, a brief history of the tax collection arrangements is as follows:

The Federal-Provincial tax collection agreements began in 1962, replacing the "Tax Rental Agreements" which were in effect from 1941 to 1962. Essentially, under the terms of the agreements --

- the federal government collects income taxes free of charge;
- provinces accept the federal Government's tax base: that is the definition of income, exemptions and deductions;
- provinces set their income tax rates as a percentage of "Basic Federal Tax" for the personal income tax and a percentage of "Taxable Income" for the corporation income tax;
- during the 1970s, provinces obtained a greater degree of flexibility within the tax collection agreements. The federal government agreed to administer a variety of personal tax credits, reductions, surtaxes, and also permitted dual corporation income tax rates.

However, in the period 1980-82, the federal government rejected a number of provincial requests for more economically-stimulative credits, prompting British Columbia, Alberta and Ontario to consider opting out of their tax collection agreements. The federal government reviewed its position and subsequently undertook to administer a variety of "economic policy" credit programs. More recently, the election of a new federal government apparently willing to achieve "consensus" with the provinces on a number of issues may improve prospects that a modified tax collection agreement can be negotiated.

The central problem with the existing arrangements is the nature of Provincial dependence on the Federal definition of the tax base; including income, exemption and deductions. As noted previously these are the very issues most central to the equity of the tax system. The equity of the Provincial income tax system, both personal and corporate, is decided to a very significant degree by the Government of Canada.

2. The Manitoba Collection Option

Every recent Manitoba Finance Minister has experienced frustration in his dealings with his Federal counterpart and with the Federal Income Tax system. This frustration has been sufficient that each recent Minister has considered the option of withdrawing from the Canada-Manitoba Tax Collection Agreement. This would enable the Province to levy and administer the Provincial Personal and/or Corporate Income Tax itself. The views on taxation held by Ministers of Finance for Manitoba and Canada are sufficiently divergent to prompt a more detailed look at the issue of an opting-out proposal. The issue central to this question is -- "Do the benefits of flexibility and independence outweigh the increased costs of administration and balkanization?" No absolute answer is possible to this question without a thorough review of the evidence pertaining to costs and benefits. This is not simply a calculation of the "costs" of administration against the "benefits" of a fairer treatment of non-earned income (capital gains/dividends, etc.). While that calculation is necessary, the broader implications of the impact of a differing tax regime in Manitoba than in neighbouring jurisdictions, the additional costs of doing business, and the potential for revenue or economic losses through transfers of activities must also be considered.

The best available estimates of the costs of administration are based on work done by the Taxation Division of the Manitoba Department of Finance in September 1986:

"Although it is very difficult to estimate what annual costs would be without actually developing a full system, it is estimated that annual administration costs to administer a personal and corporation income tax system would amount to at least $25,000,000. Start up costs would probably be in the $15,000,000 to $20,000,000 range and two full years would be required to develop the system."

This establishes that a separate collection system is possible but a costly undertaking in comparison to convincing the Government of Canada of the need for reform.

The Province of Alberta administers its own Corporate Income Tax Act at an annual cost of more than $12 million, but start-up costs alone amounted to $10 million. If Manitoba considers a similar arrangement, it should first undertake a thorough review of the Alberta experience to determine whether or not the benefits to the province outweigh the significant personnel and dollar costs of administration. The key advantage of Manitoba administering the tax itself is the control in setting rates, including the potential for a minimum income tax on corporations.

IX. SHARING THE TOTAL TAX BURDEN

There are several approaches to measuring the total tax burden. Among the most commonly utilized are:

- The comparison of individual tax rates inter-jurisdictionally (Manitoba's rate of income or sales tax versus the rate in other provinces);
- Comparison of the total burden on a "representative" tax-filer at a specified income level across several jurisdictions;

In the interest of illustrating the variety of approaches each is briefly noted below. The further issue of the balance between shares borne by individuals versus corporations is also explored. There is then the more difficult and important issue of how the impact of increases is reviewed.

A. Current Tax Load on Individual Manitobans

The following chart represents Manitoba's relative ranking on several of the major tax rates - sales - personal income - corporate income -

Interprovincial Comparison of Major Levies

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Personal Income (% of Basic Federal Tax)	60.0	52.5	56.5	58.0	**	50.0[a]	54.0[a]	50.0[a]	43.5	47.5[a]
Corporation Income (%)										
• Large	16.0	10.0	15.0	15.0	5.9	15.0	17.0	17.0	11.0	16.0
• Small	10.0	10.0	10.0	9.0	3.2	10.0	10.0	10.0	5.0	8.0
Sales (%)	12.0	10.0	10.0	11.0	9.0	7.0	6.0	5.0	-	7.0
Gasoline (¢/litre)	9.9	8.7	9.8	9.7	13.65	8.3	8.0[b]	-	-	8.56
Diesel Fuel (¢/litre)	13.3	10.9	9.7	10.0	12.45	9.9	9.2	-	-	9.00
Tobacco (¢/cigarette)	4.78[c]	1.50[c]	3.50	4.00	4.52	2.70[c]	4.10	4.08	1.48	3.44
Corporation Capital (%)	-	-	-	-	0.48	0.3	0.3	0.5	-	0.2
• Banks (%)	1.5	-	1.5	-	0.97	0.0	3.0	3.0	-	2.0
Employer Health/Education Levy (% of Compensation Paid)										
• $15,000	-	-	-	-	3.22	4.76[d]	1.5	-	2.24[d]	2.56[d]
• $20,000	-	-	-	-	3.22	3.57[d]	1.5	-	1.68[d]	1.92[d]

**The Quebec Personal Income Tax is levied directly against taxable income.

[a] These provinces impose surtaxes on higher income taxpayers. Saskatchewan also levies a 1.0% flat tax "net income."

[b] Manitoba levies a 0.9¢/litre surcharge on leaded fuel.

[c] These provinces also apply sales taxes to tobacco products.

[d] These provinces do not have employer levies per se. However, employers generally pay health/medicare premiums on behalf of employees. The rates shown reflect the family premium rates currently in effect.

Note: Rates shown reflect 1986 Budgets for all provinces, except Prince Edward Island which had not introduced its Budget by May 16, 1986.

As the chart indicates, Manitoba can be said to have the 7th highest or 3rd lowest sales tax among Canadian provinces, and the 5th highest or 5th lowest personal income tax rate. While useful in Legislative Assembly debates the major limitation in this type of comparison is that it misses the interaction of all taxes taken together on the tax filer. As well it omits any differences in approach such as health care premiums vs. a levy on employer payrolls. It also ignores the different cost of living faced by tax filers resident in different areas across Canada.

The comparison of all of the major taxes and costs as they impact on several representative tax filers at different income levels is evident in the following examples taken from the 1986 Saskatchewan Budget.

1986 Interprovincial Comparison of Personal Taxes and Charges

These tables show the most typical taxes and charges that an average family of two adults and two children would face across the country at income levels of $20,000, $30,000 and $40,000.

Overall, Saskatchewan has the lowest personal taxes and charges at the $20,000 income level and the second lowest at the $30,000 and $40,000 levels.

This is the result of a number of factors. Saskatchewan does not have a gasoline tax and does not collect health care premiums. The Province's retail sales tax rate is the lowest among the nine provinces which have a retail sales tax and, in addition, Saskatchewan exempts prepared meals, labour charges and most clothing. These factors lead to a level of taxes that is the third lowest in Canada for families at the $20,000 and $30,000 income levels and the second lowest at the $40,000 income level.

The low level of taxes is further enhanced by the lowest overall personal charges in the country for car insurance, telephone, home heating and electricity expenses.

TABLE 1: For a Taxpayer with Total Income of $20,000 per annum

	British Columbia	Alberta	Sask-atchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Provincial Income Tax	$ 720	$ 659	$ 761	$ 818	$ 758	$ 473	$ 879	$ 856	$ 796	$ 909
Tax Credits and Rebates	(380)	(320)	-	(443)	(183)	(4)	-	-	-	-
Health Premiums	456	336	-	-	714	-	-	-	-	-
Retail Sales Tax	269	-	148	255	309	306	419	374	331	574
Gasoline Tax	233	-	-	240	224	369	265	262	278	316
Total Taxes	$1,298	$ 675	$ 909	$ 870	$1,822	$1,144	$1,563	$1,492	$1,405	$1,799
Car Insurance	$ 666	$ 855	$ 432	$ 422	$1,065	$ 807	$ 594	$ 600	$ 472	$ 596
Telephone	175	111	100	90	158	146	145	157	151	143
Home Heating	825	602	643	867	1,062	1,197	1,854	1,757	1,789	1,949
Electricity	509	398	421	334	440	352	532	514	727	547
Total Charges	$2,175	$1,966	$1,596	$1,713	$2,725	$2,502	$3,125	$3,028	$3,139	$3,235
Total	$3,473	$2,641	$2,505	$2,583	$4,547	$3,646	$4,688	$4,520	$4,544	$5,034

TABLE 2: For a Taxpayer with Total Income of $30,000 per annum

	British Columbia	Alberta	Sask-atchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Provincial Income Tax	$1,641	$1,502	$2,011	$1,865	$1,727	$2,185	$2,003	$1,951	$1,813	$2,072
Tax Credits and Rebates	(380)	(320)	-	(325)	-	-	-	-	-	-
Health Premiums	456	336	-	-	714	-	-	-	-	-
Retail Sales Tax	404	-	222	382	464	459	628	560	496	861
Gasoline Tax	233	-	-	240	224	369	265	262	278	316
Total Taxes	$2,354	$1,518	$2,233	$2,162	$3,129	$3,013	$2,896	$2,773	$2,587	$3,249
Car Insurance	$ 666	$ 855	$ 432	$ 422	$1,065	$ 807	$ 594	$ 600	$ 472	$ 596
Telephone	175	111	100	90	158	146	145	157	151	143
Home Heating	825	602	643	867	1,062	1,197	1,854	1,757	1,789	1,949
Electricity	509	398	421	334	440	352	532	514	727	547
Total Charges	$2,175	$1,966	$1,596	$1,713	$2,725	$2,502	$3,125	$3,028	$3,139	$3,235
Total	$4,529	$3,484	$3,829	$3,875	$5,854	$5,515	$6,021	$5,801	$5,726	$6,484

TABLE 3: For a Taxpayer with Total Income of $40,000 per annum

	British Columbia	Alberta	Sask-atchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Provincial Income Tax	$2,788	$2,553	$3,319	$3,282	$2,934	$4,359	$3,403	$3,315	$3,081	$3,521
Tax Credits and Rebates.........	(380)	(320)	-	(325)	-	-	-	-	-	-
Health Premiums..	456	336	-	-	714	-	-	-	-	-
Retail Sales Tax...	538	-	297	510	618	611	837	747	661	1,149
Gasoline Tax	233	-	-	240	224	369	265	262	278	316
Total Taxes........	$3,635	$2,569	$3,616	$3,707	$4,490	$5,339	$4,505	$4,324	$4,020	$4,986
Car Insurance	$ 666	$ 855	$ 432	$ 422	$1,065	$ 807	$ 594	$ 600	$ 472	$ 596
Telephone	175	111	100	90	158	146	145	157	151	143
Home Heating	825	602	643	867	1,062	1,197	1,854	1,757	1,789	1,949
Electricity	509	398	421	334	440	352	532	514	727	547
Total Charges.....	$2,175	$1,966	$1,596	$1,713	$2,725	$2,502	$3,125	$3,028	$3,139	$3,235
Total	$5,810	$4,535	$5,212	$5,420	$7,215	$7,841	$7,630	$7,352	$7,159	$8,221

Notes:

The tables are based upon a taxpayer claiming a spouse and two children (one child aged 6 or under and one child aged 12 -15). Total income includes earned income and family allowance payments (at 1986 rates). In order to compensate for the different family allowance payments in Quebec and Alberta, earned income in these provinces is correspondingly adjusted. In addition to personal exemptions, the employment expense deduction and CPP/QPP and UI contributions calculated at 1986 rates are deducted in computing tax. Gross Quebec personal income tax has been reduced by 16.5% of federal basic tax in respect of contracting out of certain federal-provincial programs. Provision is made in the calculation for provincial tax reductions where applicable.

Tax credits and rebates refer to provincial income tax credits and grants or rebates designed to reduce the burden of property taxes. The taxpayer is assumed to own a home upon which $1,000 in property taxes is paid.

Health premiums are annual family premiums for hospital insurance and medical services. No provision is made for employer subsidization of these premiums.

Retail sales tax is based upon average expenditures for a family of four from **Family Expenditure in Canada, 1982** (Statistics Canada 62-555). The sales tax base in each province was identified from the various provincial Acts. An estimate was then made of total taxable family expenditures in each province (excluding expenditures on electricity and heating fuels).

Gasoline tax is based upon an annual consumption of 2,700 litres of gasoline.

The following cities were surveyed for the remaining charges: Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, Saint John, Halifax, Charlottetown and St. John's. All rates are as obtained in March 1986.

Car insurance is based upon the rate for a married male, over 30 years of age, driving a 1984 Dodge Aries. Coverage includes $500,000 third party liability, $100 deductible collision and $100 deductible comprehensive.

The telephone charge is for the main phone in an individual residence.

Home heating assumes an annual consumption of 168 mcf of natural gas. For the Atlantic Provinces the figures represent the BTU equivalent consumption of fuel oil. Rates include taxes and surcharges which may be applicable.

Charges for electricity are based upon an annual consumption of 7,200 kW.h. Rates include taxes and surcharges which may be applicable.

In summary, the two methods can be said to collectively rank Manitoba in the middle to lower range of taxation levels among Provincial jurisdictions. This is augmented to a significant degree by dramatically below national average costs for electrical energy, telephone and automobile insurance. With these costs taken into account, Manitobans' tax burden is significantly offset, moving the Province to the lower end of the tax burden plus cost of living spectrum.

B. Individuals vs. Corporations - The Trend

Two contradictory trends are evident in a review of the sharing of total tax burden in Manitoba. In parallel with the national trend, and not surprisingly due to the Federally determined nature of the tax base, the yield from the Personal Income Tax has grown more rapidly in Manitoba than the yield from the Corporate Income Tax. The following table indicates this trend.

	1970/71	1974/75	1979/80	1986/87	% Change
	(millions of $)				
Personal Income Tax	116.2	203.9	370.1	719.7	+619.3%
Corporate Income Tax	32.5	79.2	95.1	146.5	+450.7%

This is evidence which supports the view that the tax burden has been increasingly borne by labour income. The Personal Income Tax raised 3.5 times as much revenue as the Corporate Income Tax in 1970/71 and 4.9 times as much in 1986/87.

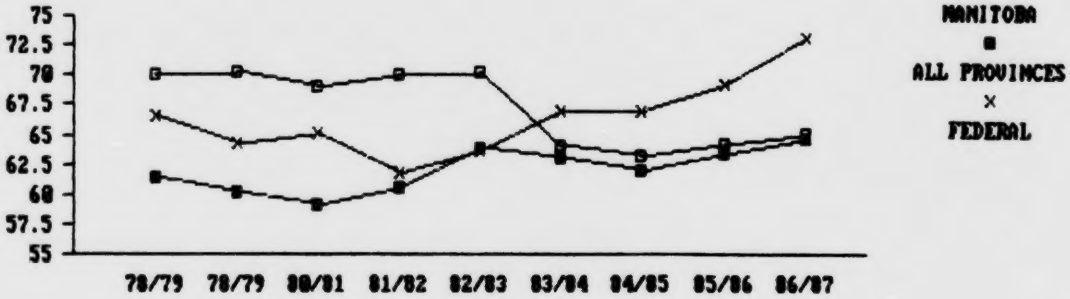
However, a broader calculation of all Taxes and Fees Levied on Corporations versus Taxes and Fees Levied on People produces a different result.

SUMMARY OF TRENDS IN THE COMPOSITION OF REVENUES

(% of Total Revenues)

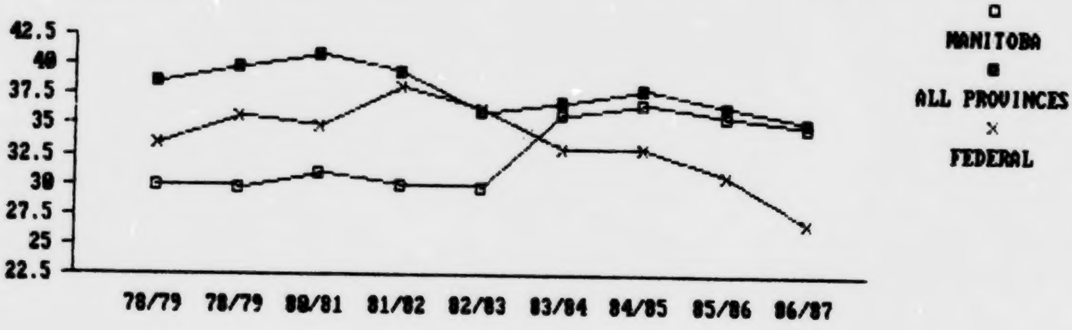
PEOPLE

PEOPLE TAXES	78/79	78/79	80/81	81/82	82/83	83/84	84/85	85/86	86/87
MANITOBA	70.2	70.3	69.0	70.0	70.4	64.1	63.2	64.3	65.1
ALL PROVINCES	61.3	60.0	59.0	60.5	63.9	63.1	61.9	63.4	64.7
FEDERAL	66.6	64.4	65.1	61.8	63.7	67.0	66.9	69.3	73.2



BUSINESS

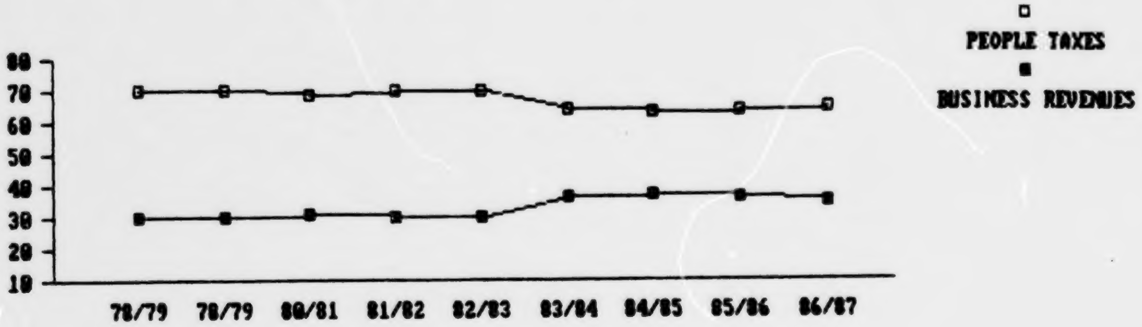
BUSINESS REVENUES									
MANITOBA	29.8	29.7	31.0	30.0	29.6	35.9	36.8	35.7	34.9
ALL PROVINCES	38.7	40.0	41.0	39.5	36.1	36.9	38.1	36.6	35.3
FEDERAL	33.4	35.6	34.9	38.2	36.3	33.0	33.1	30.7	26.8



MANITOBA

MANITOBA

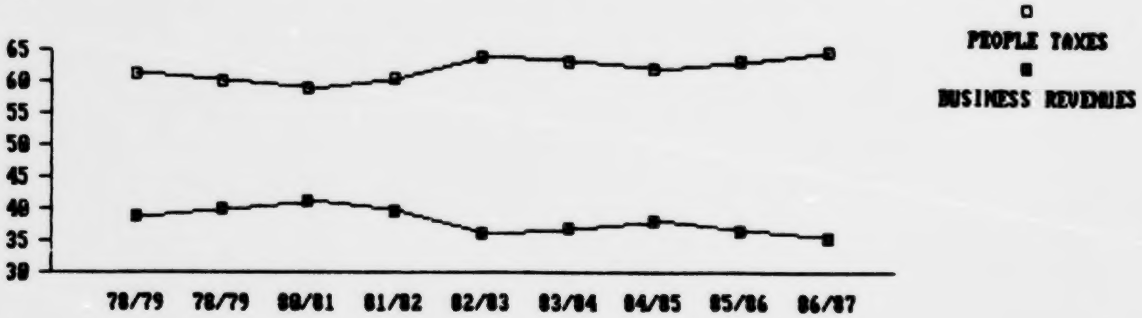
PEOPLE TAXES	70.2	70.3	69.0	70.0	70.4	64.1	63.2	64.3	65.1
BUSINESS REVENUES	29.8	29.7	31.0	30.0	29.6	35.9	36.8	35.7	34.9



ALL PROVINCES

ALL PROVINCES

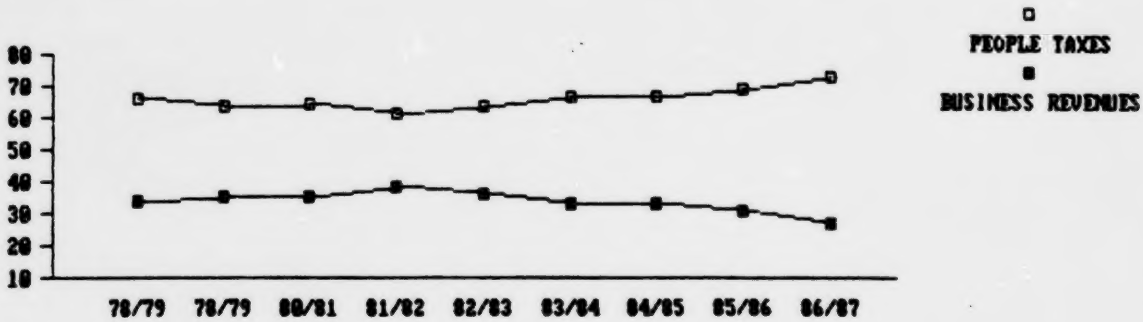
PEOPLE TAXES	61.3	60.0	59.0	60.5	63.9	63.1	61.9	63.4	64.7
BUSINESS REVENUES	38.7	40.0	41.0	39.5	36.1	36.9	38.1	36.6	35.3



FEDERAL

FEDERAL

PEOPLE TAXES	66.6	64.4	65.1	61.8	63.7	67.0	66.9	69.3	73.2
BUSINESS REVENUES	33.4	35.6	34.9	38.2	36.3	33.0	33.1	30.7	26.8



The total of taxes and fees levied by Manitoba on businesses has grown by more than 900% from 1970/71 to 1986/87, while the taxes and fees levied on individuals has grown by less than 600%. This clearly reflects tax choices by Manitoba Governments in the last 15 years to levy taxes on the corporate sector rather than individuals. Major examples include the Corporation Capital Tax ($41.1 million in 1986/87) and the Levy for Health and Education ($123.5 million in 1986/87) which were both introduced during this period. On the people front most incremental revenue has been generated by economic growth and inflation rather than rate changes or new taxes.

One can conclude that the Government of Manitoba has taken the opposite view to the Government of Canada over the past 15 years on the issue of where and on whom to levy additional taxes and fees.

C. Capacity for Increases

The above comparisons suggest that there is some room for tax increases and this finding is supported by the forecast that Manitoba's economy will expand at a 3%+ per annum growth rate over the next 5 years. It should be recognized that recent Federal Budgets have increased taxation and that this cumulative effect is a constraint on the revenue room for the Province.

The following table presents the relationship among total personal income, incremental taxation and growth.

Tax Increase (Millions)	Personal Income (1) (Billions)	Tax Increase as % of Personal Income
$ 100	$ 15.7	.64%
200	15.7	1.28%
300	15.7	1.91%
400	15.7	2.55%
500	15.7	3.18%

(1) 1985 Data

The obvious point to be made is that macro-economic effects will be a joint consequence of the magnitude of any Federal tax increases or decreases combined with any Provincial tax increases or decreases.

D. Progressivity

Manitoba's tax system is somewhat more progressive than that in other Canadian provincial jurisdictions due both to a number of elements that allocate a larger share of the tax burden to those individuals and institutions with a greater ability to pay and to tax credits geared to incomes. Some of the elements include:

- MANITOBA PROPERTY TAX CREDIT
- MANITOBA COST OF LIVING TAX CREDIT
- HIGH INCOME SURTAX
- ABSENCE OF MEDICARE PREMIUMS
- ABSENCE OF HOSPITAL USER CHARGES

Of significant concern in this field is the continued improvement of the tax system by the introduction of greater progressivity in any reform measures. To properly measure progressivity of the total impact of various taxes and programs it is necessary to consider tax back rates or rates of reduction in program benefits as well as marginal tax rates and credits. A very detailed examination of this issue was undertaken by the Manitoba Department of Finance in 1982. The results of modelling the impact of the programs listed below was to discover significant inequity for low and middle income tax payers.

1. Federal income taxes
2. Unemployment Insurance Premiums
3. Canada Pension Plan Contributions
4. Family Allowance
5. Federal Child Tax Credit
6. Provincial income taxes
7. Cost of Living Tax Credit
8. Property Tax Credit
9. Child Related Income Support Program
10. Shelter Allowance for Family Renters
11. Day Care Assistance

MARGINAL TAX RATES

Income Level $	Single Person Tenant $300 Per Month Rent	Single Parent; Two Dependent Children In Daycare; Tenant $300 Per Month Rent
	MARGINAL TAX RATE %	
5,000	6%	---
6,000	75%	---
6,800	30%	---
7,500	--	27%
9,400	--	126%
12,700	--	43%
15,000	31%	43%
25,000	38%	63%
50,000	47%	46%
100,000	53%	53%

Tax changes since 1982 would produce different marginal rates than those shown above. However the point to be considered - that progressivity must be measured on the total package of taxes, credits and programs geared to income - remains entirely valid.

Prior to the implementation of any of the tax reform or tax increase recommendations, their impact should be modelled against a sample of taxfilers and the impact of program "phase-out" or "tax back" rates considered to provide the broadest possible view of progressivity. As noted in the study referred to above,

> *The design of such "phase-out" features is even more important in programs intended for employable people or the "working poor". Unfortunately, such programs are often developed independently by different agencies to achieve different purposes, and too frequently, in ignorance of other income related programs. As a result, benefits may become "stacked" and combined phase-outs may become exhorbitant; in some cases exceeding the additional income earned. For a beneficiary of such programs the combined marginal rate is crucial. There can be no incentive to move to a higher paying job or accept more employment hours, if the decrease in program benefits, combined with increases in income taxes, approach or exceed the additional income earned. Similarily, people contemplating their retirement income, or retired people with income earning assets, may have advantages in reducing their "own source" retirement income (dissaving) if tax rates on such income are very high.*

X. RECOMMENDATIONS

These recommended options for consideration are premised on two objectives of equal importance. These are the need to address Manitoba's immediate, serious fiscal circumstance and the need to do so in the most fair and equitable fashion possible. Two complementary thrusts are recommended: advocacy of a fairer taxation system nationally achieved by major reform, and tax changes in Manitoba achieved in the most equitable fashion possible given the available options and the need for incremental revenue. Without federal tax reform Manitoba will be in the position of the frustrated fisherman bailing his leaking boat with a leaking bailing can.

A. Federal-Provincial Issues

1. Model Income Tax System

It is recommended that the Manitoba Government advocate a major reform of the Personal and Corporate Income Tax System in Canada to achieve a return to the basic principles of equity and fairness. As its foundation, the reformed Personal Tax and Corporate Income Tax System would have the broadest possible definition of income and in its construction the narrowest acceptable range of deductions and exemptions. Where special preferences are deemed necessary, it is recommended that tax credits be utilized and treated as expenditure programs subject to the same legislative and parliamentary scrutiny as other expenditures by government.

The three central principles of a model system must necessarily be equity, efficiency, and simplicity.

Within the equity principle there is a concern for both vertical and horizontal equity. Vertical equity is the ability to pay principle. Individuals in different income brackets should pay differing amounts of tax with the better off paying more.

Horizontal equity is the concept that individuals in the same or similar economic circumstances should be taxed the same or similar amounts.

A further equity consideration is a direct consequence of our tax system's dependence on voluntary compliance. Without both equity and a perception of equity, respect for the tax system is eroded and voluntary compliance as well as revenue suffers.

The equity principle requires a broad, comprehensive tax base for its successful implementation. With exclusions of types of income from the tax base both horizontal and vertical equity are undercut. Equal treatment of like taxpayers and ability to pay are made more difficult by a less than comprehensive tax base. So a requirement of the equity principle is the broadest possible base for the tax system.

The simplicity objective while not as important as equity is an objective compromised with a cost to the tax system in terms of understanding and confidence by the general public. In reform efforts simplicity should be a priority concern. Where several options are available with equivalent equity impacts the simplicity versus complexity dimension may provide a basis for selection.

Efficiency is the result of the degree to which any tax measure distorts or dampens economic activity. Naturally any tax will dampen the economic activity upon which it is imposed. However, with a comprehensive tax base the distortions caused by taxation can be minimized.

Beyond these three principles there are two other concerns to be addressed:

- neutrality towards business form
- taxpayer morale

However, in summary, the overriding need is for a system that is broadly based, simple and fair.

The approach taken to defining the nature of the 'model' Income Tax System for the Personal Income Tax System is to group all existing exclusions from income or taxation into three categories. An assumption in this exercise is that the income tax system should not be used to support selective sectors of the community or the economy indirectly with exemptions and/or deductions when direct grant support is possible.

There are those features of the current system that are viewed as inequitable and not appropriate to a model system. These are so labelled. There are provisions which are either relatively minor, worth retaining, or are candidates for conversion to tax credits. The third category are those provisions which require further consideration for one reason or another. By considering these elements individually it is possible to evolve a model system in a logical and constructive fashion. This is at variance from a utopian system which one might imagine but be hardpressed to describe. Throughout this section national data from 1983 is utilized as it is the most recent available. Some provincial scale implications are noted at the conclusion of this section.

MEASURES RECOMMENDED FOR ELIMINATION Type	Specific	NATIONAL COST - 1983 ($ Millions)
RESOURCE SECTOR	1. Drilling funds, flow-through shares, and other resource related deductions.	45
	2. Capital gains treatment for prospectors and grubstakers.	S
REGIONAL DEVELOPMENT	3. Portion of investment tax credit.	*
	4. Portion of employment tax credit.	*
RESEARCH AND DEVELOPMENT	5. Immediate write-off of R & D expenditures.	5
	6. Scientific research tax credit.	85
	7. Special tax treatment of certain options issued to employees of private corporations.	n/a
GENERAL BUSINESS AND INVESTMENT INCENTIVES	8. Investment tax credit for individuals not included elsewhere	24
	9. Non-taxation of one-half capital gains income realized after 1971	440
	10. Non-taxation of realized capital gains income accrued prior to 1972	n/a
	11. Flow-through of capital gains for private corporations	n/a

12. Special treatment of stock dividends of public corporations	n/a
13. $1,000 capital gains exemption for personal use property transactions	S
14. $200 capital gains exemption on foreign exchange transactions	S
15. Deferral of capital gains income through various rollover provisions	n/a
16. Accrued capital gains income not included elsewhere	n/a
17. $1,000 investment income deduction	835
18. Other accrued investment income not included elsewhere	n/a
19. Non-taxation of investment income on life insurance policies	290
20. Excess of tax depreciation over book depreciation for unincorporated businesses not included elsewhere	n/a
21. 3 percent inventory valuation adjustment for unincorporated businesses	30
22. Tax deferral available from income averaging annuity contracts	-
23. Deductibility of prepaid expenses	-
24. Deferral of tax from use of holdbacks on progress payments by contractors	n/a
25. Deferral of tax from use of billed-basis accounting by professionals	n/a

	26. Income splitting through interest-free loans between family members	n/a
	27. Inter-spousal capital gains rollover	n/a
	28. Transfer of spouse's federal tax reduction	325
HOUSING	29. Registered home ownership savings plan deduction	95
	30. Multiple unit residential buildings provision	40
	31. Non-taxation of various homeowner grants	140
CULTURE	32. 100 percent write-off for Canadian films	S
	33. Write-off on artwork purchased by unincorporated businesses	S
	34. Non-taxation of lottery and gambling winnings --	
	government lotteries	215
	race track betting	250
	other gambling	n/a
OTHER	35. Dividend gross-up and tax credit	785
	36. Deduction of up to $5,000 of farm losses by part-time farmers	n/a
GENERAL GOVERNMENT	37. Non-taxation of RCMP pension or compensation for injury, disability or death	S
	38. Non-taxation of certain allowances to volunteer firemen	S

FOREIGN AFFAIRS	39. Non-taxation of special allowance for diplomats and other government employees posted abroad	8
DEFENCE	41. Non-taxation of veterans allowances, civilian war pensions and other service pensions	85
	42. Non-taxation of service pensions from another country	S
	43. Non-taxation of income from War Savings Certificates	S
LABOUR FORCE	44. Non-taxation of employee benefits in the form of subsidized loans (including housing loans within prescribed limits)	n/a
	45. Non-taxation of employee paid premiums for private health insurance, and group term life insurance of up to $25,000	400
MEMRANDUM ITEMS	46. Non-Taxation of expense allowances of MPs, MPPs, Royal Commissioners and certain municipal officials	S

MEASURES RECOMMENDED FOR FURTHER CONSIDERATION		**NATIONAL COST - 1983 ($ Millions)**
Type	**Specific**	
SMALL BUSINESS	1. Deferral of up to $200,000 of capital gains on intergenerational transfers of sale businesses	n/a
ENERGY CONSERVATION	2. Non-taxation of home insulation grants in Nova Scotia and Prince Edward Island	S
SMALL BUSINESS	3. Full offset of capital losses on private company shares and debt obligations	50
	4. Non-taxation of provincial assistance for venture investments	n/a
	5. Tax advantage on savings in registered pension plans (RPPs) and registered retirement savings plans (RRSPs)	4,900
	6. Rollovers of pension payments and lump sum receipts into RRSPs	*
	7. Tax advantage of savings in deferred profit-sharing plans	n/a
EDUCATION	8. Non-taxation of first $500 of scholarship and bursary income	S
	9. $50 per month education deduction	45
	10. Deduction of contributions to teachers exchange fund	S
	11. Special tax treatment of registered education savings plan	S
CULTURE	12. Non-taxation of capital gains on gifts of property under the Culture Property Export and Import Act	S

MEMORANDUM ITEMS	13. Forward averaging for individuals	n/a
	14. Deduction of up to $2,000 of allowable capital losses against other income	45

MEASURES RECOMMENDED FOR RETENTION/CONVERSION		NATIONAL COST - 1983 ($ Millions)
Type	Specific	
GENERAL GOVERNMENT	1. Political contribution tax credit	8
	2. Non-taxability of income from the Office of Governor General	S
FOREIGN AFFAIRS	3. Overseas employment exemption	17
FARMERS AND FISHERMEN	4. Five-year block averaging for farmers and fishermen	n/a
	5. Cash basis accounting	n/a
	6. Flexibility in inventory accounting	n/a
	7. Deferral of tax on capital gains on intergenerational rollovers of family farms	n/a
	8. Deferral in income on grain sold through deferred cash tickets	30
	9. Deferral of income on destruction of livestock	n/a
	10. Expensing of certain capital expenditures	n/a
	11. Exemption from requirement to make quarterly instalments of tax payments	S
	12. Deduction of one-quarter of all farm home expenses and two-thirds of automobile expenses without proof of use for business purposes	n/a
	13. Investment tax credit on farming and fishing investments	100
	14. Excess of tax depreciation over book depreciation, general	S

LABOUR FORCE	15. Employment tax credit	S
	16. Non-taxation of other non-monetary benefits of employment (e.g. employee discounts)	n/a
	17. Tax advantage of employer contributions to employee benefit plans	n/a
	18. Non-taxation of vacation-with-pay trusts	S
	19. Non-taxation of strike pay	4
	20. Non-taxation of northern allowances	25
HEALTH	21. Deductibility of medical expenses	65
	22. Age exemption	500
	23. Non-taxation of Guaranteed Income Supplement and Spouses Allowance payments	S
	24. Deductibility of alimony and support payments	95
	25. Child tax credit	1,435
	26. Child care expense deduction	110
	27. Non-taxation of worker's compensation payments	250
	28. Non-taxation of income from personal injury awards	S
	29. Non-taxation of up to $10,000 of death benefit	n/a
SOCIAL ASSISTANCE	30. Non-taxation of means-and-needs-tested and income-tested social assistance benefits	S
	31. Exemption for the disabled and the blind	24

INDIANS AND ESKIMOS	32. Non-taxation of income earned by Status Indians on reserves	n/a
HOUSING	33. Non-taxation of realized capital gains on owner-occupied residences	
	- half taxation	640
	- full taxation	1,350
CHARITABLE	34. Deductibility of itemized charitable donations and the $100 standard deduction	515
	35. Deduction for clergymen's residence	15
	36. Non-taxation of certain income of individuals who have taken vows of perpetual poverty	S
FISCAL TRANSFERS	37. Income tax abatement to Quebec for contracting out of the shared-cost programs	1,140
	38. Transfers of income tax room to provinces in respect of shared-cost programs	4,650
MEMORANDUM ITEMS	39. Deductibility of Canada and Quebec Pension Plan Contributions	
	- employee share	480
	- employer share	480
	40. Basic Personal Exemption	8,100
	41. Federal Tax Reduction (including amount transferred from spouse in 1982 and 1983)	2,500
	42. Employment Expense Deduction	1,070
	43. Deductibility of Unemployment Insurance Contributions	
	- employee share	610
	- employer share	850

INCOME MAINTENANCE	44. $1,000 pension income deduction	150
	45. Marital exemption	1,385
	46. Exemption for wholly dependent children	940
	47. Exemptions for other dependents	15
	48. Deduction of tuition fees	55

The above recommendations, ignoring those tax measures with a small (s) cost or no available (n/a) estimate, can be totalled as follows:

Category	Number of Measures	1983 Cost ($ Millions)
1. Recommended for Elimination	46	4,092
2. Recommended for Further Study	14	5,040
3. Recommended for Retention or Conversion to Tax Credits	48	27,648

This analysis indicates in a first review fashion the degree to which existing tax preferences, such as the basic personal exemption ($8.1 billion); deductibility of unemployment insurance and CPP/QPP premiums ($2.52 billion total); and the child tax credit ($1.41 billion) are major items, totalling some $27.6 billion or over 80% of the total. This is not to suggest that only a small percentage of tax measures could be altered. In fact the most significant changes that could be enacted would be the conversion of various exemptions to credits. The enhanced equity possible through such conversions is based on the greater value of existing exemptions to upper income groups. For example a $4,000 basic personal exemption might be worth as much as $1,800 in tax saving to a high income earner and as little as $600 or less to a low income individual. Conversely, a tax credit would be worth more to the low income individual. The basic personal exemption and other measures could be converted to tax credits improving equity and fairness to a significant degree.

2. Manitoba Strategy on Federal Tax Reform

It is recommended that the Government of Manitoba approve a positive position on reform of the Personal Income Tax system and Corporate Income Tax system along the lines of movement towards a Model Income Tax System. It is further recommended that the Province utilize every available opportunity to present and advocate its view.

Manitoba has articulated its critique of the Federal Government's tax decisions on numerous occasions as the following quotations indicate:

"The analysis of the impact of the May 23, 1985 Federal Budget proposals suggests that only a very few -- almost exclusively high-income and/or wealth -- Manitoba tax filers will benefit from the Budget's personal income tax and income support measures."

Effects of the May 23, 1985
Federal Budget on Manitoba
Taxfilers: Personal Income
Tax and Child Benefit Changes,
Manitoba Department of Finance.

"During the last several years, Manitoba has consistently pressed the point that a comprehensive review and reform of the Canadian tax -- and particularly the income tax system -- is long overdue .... A significant majority of Canadians no longer believe the tax system is fair. Many Canadians believe -- with good reason I might add -- that the Canadian tax system -- both in design and administration favours the wealthy at the expense of working people...... Our collective goal should be to move towards an overall tax structure which Canadians in general will recognize as fair and equitable and capable of raising sufficient revenue to sustain important public services."

Hon. V. Schroeder,
Notes For A Statement
On Taxation Issues,
Federal-Provincial
Finance Ministers
September 26-27, 1985.

"The Manitoba Government has consistently argued that national tax reform is urgently required to restore fairness to taxation and to provide the resource base necessary to sustain public programs. A return to fair taxation is a basic requirement to maintain vital services and programs needed by Canadians. It is also a prerequisite to the improved fiscal flexibility senior Governments must have in order to undertake the fresh initiatives needed to meet the emerging challenges of the economic and social transformation now underway....

Fairness

The cumulative effects of federal tax policy over the last dozen years have made significant base-broadening tax reform more than a desirable objective. Tax reform is now urgently required.

Proliferation of Tax Preferences

Among other effects, the proliferation of preferences has led to a self-perpetuating "vicious circle" of unproductive competition among various sectors and interests to attain the covetted "most favoured" status within in a position where the tax benefits of various provisions completely outweigh any consideration of the economic risks inherent in the activities themselves.

Accountability: Costs and Effectiveness

Manitoba has pointed out that the national tax system has experienced significant erosion and revenue losses through the introduction of numerous preferences, deductions, and incentives. Thorough review of the effectiveness of these measures is long overdue.

....All the available evidence suggests that the 1985 federal Budget measures, considered as a package, represent a step back from achieving income tax reform. Canadians' perceptions of the fairness of the system will not be enhanced and the revenue generating capacity of the personal and corporate income taxes appear to have been compromised significantly."

Manitoba's Position on Tax Reform
Honourable H. Pawley
Annual Conference of
First Ministers
November 28, 29, 1985

In all of these statements and in many others Manitoba has laid the groundwork for concrete proposals for reform of the income tax system - both personal and corporate. Manitoba's views on the need to broaden the tax base and eliminate tax expenditures are all recurrent themes. The necessary next step is to articulate the model for a fair and effective taxation system, one which provides sufficient revenues obtained in the fairest possible manner.

3. Increasing the Level of Federal Revenue Transfers

It is recommended that the province continue its efforts to reverse the Federal Government's reductions in the Health and Post Secondary Education area. No Province has done more to pursue this issue and the initiative should be continued.

All further opportunities should be pursued including meeting of Finance, Health, Education Ministers, and First Ministers. As recommended above the development of a parallel and complementary initiative on tax reform should enhance the credibility of the current position by elaborating in even greater detail the sources of revenue available to the Government of Canada. Again the support of other provinces and the broader public will be important elements of a continued campaign.

4. Wealth Taxes

In the interests of equity, wealth taxes should be the subject of a joint review by the Federal and Provincial Departments of Finance as a component of the overall Tax Reform discussion. The Province should strongly advocate such a review.

B. Own Source Revenues

1. Options to Reform Current Tax Revenue Sources

It is unlikely that Federal Tax Reform will proceed at a rapid pace. In view of the divergent philosophies of the Governments of Manitoba and Canada, it is also quite likely that the Federal Tax Reform which does proceed will have somewhat different concerns than treating all forms of income in the same manner and with overall progressivity. To date, the actions of the current federal government have been mixed in this regard. Elimination of the Scientific Research and Development Tax Credit and imposition of an Alternative Minimum Tax are steps which will increase the progressivity of the tax system while the $500,000 Capital Gains Deduction is regressive in its impact. In view of its fiscal situation, it is recommended that the Province consider the following package of tax reform and tax increase options with the objective of raising necessary incremental revenues in the most equitable fashion available.

a. Retail Sales Tax Extension Option

It is recommended that consideration be given to the option of extending the Retail Sales Tax to the following services within the Manitoba economy after a careful further review of implications.

SERVICE	BASE (millions) $	ESTIMATED YIELD AT 6% RATE (millions) $
Legal Service Fees	61.3	3.7
Accounting Service fees	25.5	1.5
Engineers and Architect Service Fees	8.3	0.5
Management Consulting fees	n/a	n/a
Automobile Insurance Premiums	136.1	8.2
Personal Care Services	59.8	3.6
Services Related to Household Furnishings and Equipment not presently taxed	20.7 (part)	1.2 (part)
Domestic and Other Custodial Services	16.9	1.0
	(approximately)	20.0

This yield would increase by approximately #3 million with each point increase in the Retail Sales Tax rate.

Further work is necessary on a number of aspects of this proposal. This work should be undertaken by the Department of Finance, Taxation Division at an early date. The work should include necessary legal drafting.

It is further recommended that consideration be given to the option of the extension of the Retail Sales Tax to tobacco products to yield an estimated incremental $15 million per annum.

b. **Levy for Health and Education**

It is recommended that consideration be given to the option of the levy being increased by .5 or 1.0% of payroll. This would yield $82 million per annum (1%) or $41 million (.5%). On a net basis (excluding payments by local government and the Province itself) $60 million (or $30 million) would be raised.

The levy has the distinct advantage of being levied on the Federal Government and large corporate employees and the disadvantage of being unpopular with small business and potentially a perceived deterrent to job creation by small business. As small business is providing 70 - 80% of new jobs in the Province this is an important consideration.

For this reason it is further recommended that the current exemption from the levy be increased from $50,000 to $100,000. This would eliminate the levy for more than 3,500 small businesses at an estimated cost of $3.0 million per annum in reduced revenue.

As the small businesses sector has been the source of most new job generation and should continue to be a strong contributor to job creation, these changes are intended to assist that job generation activity.

c. **Retail Sales Tax**

As the largest own source revenue generator the Retail Sales Tax must be considered as a potential element of a revenue raising package. Due to the broad exemption of food and some clothing some of the regressive impact of the sales tax has been mitigated. The Cost of Living Tax Credit also provides an offset for many Manitobans.

For example, an incremental 1 point of Retail Sales Tax and the equivalent change in the rate applied to alcohol would raise revenue of $75 million per annum and 2 points would, of course, yield some $150 million.

Of the available revenue sources, only the Retail Sales Tax and the Income Tax offer a sufficiently broad base to generate significant incremental revenues. If the Retail Sales Tax is to be the vehicle for a tax revenue increase, as opposed to reform, then it is strongly recommended that an exemption be considered for all clothing and footwear purchases under $300. At a cost of $36 million per annum (8% rate) or $31.5 million per annum (7% rate) or $26.5 million per annum (6% rate), this exemption would represent an apparently progressive reform of an essentially regressive tax.

There are a number of current exemptions in place which should be reviewed and possibly removed. For example, the government should consider removing the exemption on energy conservation items and changing the sales tax on domestic beer to the same rate as for spirits and imported beer. These two measures alone could raise an additional $14.5 million in revenues.

2. Changes to Current Fees and Charges

The major requirement is that more consistent attention be devoted to this complex and important area of revenue policy. The Provincial Treasury receives $310 million per year from various fees and charges or about 10% of its total revenue. Quite properly, Departmental personnel most knowledgeable in the specific policy area are the key source of advice on the level of charges. However, they are currently, for many fees and charges, the only source of advice. While there is an annual review by the Department of Finance, it is a difficult area and for that reason, the following approach is recommended.

It is further recommended that one staff analyst within the Treasury Board Secretariat be assigned to fees and charges full time for a period of one year with a review of performance to follow.

It is recommended that all departmental managers responsible for administering particular fees and charges be given 60 days to report on the full implications of each of the following changes in fee levels.

* complete elimination (administrative savings versus revenue losses).

* maintenance at current levels (degree of subsidization involved).

* increase by 25%.

* increase to equal highest rate charged in another Provincial jurisdiction.

It is finally recommended that the results be analysed and presented in the form of a Report on Fees and Charges in January and that one omnibus increase, reduction, elimination package be approved, to be effective April 1, 1987.

3. New Revenue Sources

a. Net Income Tax Option

As noted in an earlier section a tax on net income is one option. The following comparison includes this option versus sales tax versus an increase in the general personal income tax.

The following table shows the approximate impact of a 2 point sales tax increase, a 10 point increase in the general personal income tax rate and the 1987 tax on net income concept described in an earlier section.

Income Group ($)	2 Point Sales Tax Increase as % of Income (%)	10 Point Income Tax Increase as % of Income (%)	Net Income Tax as % of Income* (%)
Under - 7,500	0.76	0.03	(0.03)
7,500 - 15,000	0.80	0.52	(0.01)
15,000 - 25,000	0.78	0.94	0.79
25,000 - 50,000	0.66	1.25	1.30
50,000 & Over	0.58	1.74	1.49

* Including modifications discussed previously.

These tables are based on the questionable (though unavoidable) assumption that taxpayers would not make behavioral changes in response to any of the increases, such as increased use of tax shelters.

For equity reasons, it is recommended that careful consideration should be given to this option.

A tax on net income of 2% with the low income offset discussed earlier would yield $115 million of incremental revenue in 1987/88.

b. Land Transfer Tax

It is recommended that the Manitoba Government consider the introduction of a wealth tax on the value of land transfers in the province. The tax of 1/2 of 1% of the value of the transfer would be charged to the purchaser and would provide additional revenue in the order of $25 million.

c. Luxury Tax

Upon consideration, this concept, while appealing from an equity perspective, has too many definitional and practical difficulties. The most appropriate application would likely be to arbitrarily designate a number of categories of goods as well as price thresholds above which the luxury tax rate would apply. For example --

Automobiles over $25,000
Jewellery over $2,000
Fur coats over $5,000
Boats over $25,000

An alternate method would be to levy a higher rate on new motor vehicles. Recreational vehicles not used for commerce could be taxed at double the normal Sales Tax rate. It is expected that out-of-Province purchases would allow many Manitobans to evade this tax while damaging Manitoba businesses. As well, the arbitrariness of the tax might discriminate against enthusiasts of particular sports -- boat racing or car racing -- that are not exclusively the preserve of high income earners.

It is recommended that the concept of a luxury tax not be further considered due to the various difficulties that would be encountered in its administration.

C. Tax Expenditures

It is recommended that the Legislative Assembly consider devoting one day of the eight days of debate on the annual Budget to a debate of tax expenditures. It is further recommended that the government table a Report on Tax Expenditures annually to serve as a focal point for the debate. It is suggested that this Report be tabled with the Budget.
It is believed that this action would assist a more balanced focus on the three major elements of the fiscal package;

- program expenditures
- revenue measures
- tax expenditures.

As well, it is recommended that consideration be given to utilizing sunset clauses in legislation for tax expenditures.

D. Tax Amnesty

It is recommended that the Province of Manitoba consider adopting a tax amnesty program in its next Budget for its own taxes. The amnesty program would apply to individuals and small business proprietors. It should provide a period of time - 3 months - during which taxes under certain Provincial Statutes which have not been paid can be paid with only interest added and not penalties.

British Columbia achieved some success with a similar approach. The B.C. plan encouraged disclosures of taxes which had not previously been declared by taxpayers and forgave penalties on some for a given period. After that period, penalties were increased substantially.

The basic program should include the following elements;

- period of freedom from prosecution,
- distinct time period,
- differential treatment of trust funds,
- emphasis on integrity of the system,
- increase in fines and penalties after amnesty period,
- limited number of statutes,
- no eligibility for major corporations,
- advertising and publicity.

E. Implementation

1. Income Tax Simplification - Tax Forms

The Finance and Economic Affairs Standing Committee of the House of Commons has reported to the House on the issue of simplification of personal income taxation. In its First Report the Committee makes a number of recommendations which the Province should consider supporting. These include:

a. That the Government now begin examining measures that can be introduced to reverse the trend in the tax system that seems to make it more complicated with each Budget.

b. That future proposals to change the Tax Act should consider the implications on drafting.

c. That although drafters should not determine economic and social policy, they should have an early voice in any discussion of proposed tax legislation and should always be involved in the process leading to a change in the Act.

d. That Revenue Canada examine the possibility of introducing a questionnaire tax form for the 1986 tax year.

e. That wherever possible Revenue Canada eliminate lines from the tax return and tax guide by incorporating the implicit calculation for exemptions or deductions in the tax table.

f. That Revenue Canada, with counsel from the Department of Finance and Statistics Canada, review its tax statistics and attempt to correct any bias that may exist in the recording of total, net and taxable income.

The Committee also put forward a variety of more specific recommendations on this topic. The Province should publicly support the tax simplification objective in the context of a fairer personal income tax system.

The shift of some of the burden of tax return preparation from the tax filer to Revenue Canada by use of a short form - perhaps of the questionnaire variety considered by the Commons Committee would recognize the current complexity as an undesirable feature of the tax system. A taxation system which had fairness and equity as its founding principles might require far less complicated language and structure for its implementation.

2. Consultation With External Groups

In recent years Manitoba Finance Ministers have initiated wider consultations on the overall fiscal situation of the Province and the choices faced by the Provincial Government. This is a welcome development and it is strongly recommended that such consultations be expanded and enhanced.

3. Participation by Internal Groups

The much greater degree of involvement in expenditure management decision-making advocated for groups internal to the Provincial Government is not appropriate to the taxation field. Two areas of limited involvement are recommended:

a. review of fees and charges

As noted above the comprehensive review of existing fees and charges should involve relevant Departmental personnel.

b. combined impacts on low income groups of program and taxation decisions

Program managers with responsibility for programs which impact directly on low income groups should review program criteria to ensure appropriate amendments are recommended so that 'poverty traps' are not created by the combined impact of taxation measures and existing program criteria.

Beyond these limited areas the degree of internal consultation should be limited to the normal decision-making process of the Department of Finance and the Cabinet. Reporting to Treasury Board on the overall impact of all revenue and expenditure decisions should be properly mandated and regularly heard by Ministers.

F. Areas for Further Study

A review of this kind invariably identifies areas for further study. The following is a summary of the major issues, noted during this review, for which additional time and resources would have been necessary to adequately pursue:

- Differential impacts of the tax reform recommendations on tax filers at various income levels.
- Potential of expanded gambling activity in the Province as a revenue source. Consideration of economic and social impacts.
- Further work on wealth tax options.
- Further work on the progressivity issue.
- Funding to external agencies - a review of the effectiveness of current arrangements.
- Removal of selective tax exemptions from the Retail Sales Tax.
- Further work on the Model Income Tax concept, in general, and the conversion of existing exemptions to tax credits, in particular.

XI. CONCLUSION

There is no magic in tax reform or in the field of taxation - no rabbits - no hats - and no magicians. Raising the revenues necessary for the purposes of sustaining the programs needed and wanted by the people of Manitoba is neither an easy or a popular challenge. No remedy can be fashioned for Manitoba's fiscal difficulties that does not include both reform of taxation and reform of expenditure management. In the absence of progressive and early movement by the Government of Canada on a major reform of the national taxation system, which would augment Provincial revenues, the Government of Manitoba will also need to increase taxation levels. Fairness and equity will need to be central in both the expenditure decisions which must preserve essential services and in taxation decisions which determine the source of needed revenues.

APPENDIX A

NOTES TO TAX EXPENDITURES ON PERSONAL SERVICES -- 1986

Personal Care Services

- Includes hair grooming and other personal grooming services.

Spectator-Attended Entertainment Performance

- Includes motion picture showings, live sports spectacles and live staged performance (e.g. concerts).

Services Related to Household Furnishings and Equipment

- Includes rental of furnishings and equipment, maintenance and repairs to furnishings and equipment and other services (some already taxable).

Financial Services

- Includes banks, tax advice, etc.

Residential Building Rentals

- Data from 1983 Manitoba tax returns.

Industrial and Office Building Rentals

- Calculated as Winnipeg areas times top rental rates in the City.
- Includes only Winnipeg, but the use of the top rates will likely largely counterbalance the exclusion of centres outside of Winnipeg.

Advertising

- Figures for both newspapers and periodicals and television and radio were calculated by taking 4% (Manitoba's population share) of total revenues earned by the media in Canada from local, national and network advertising.

SOURCES: Average household expenditures from Statistics Canada 62-555 (1982) indexed to 1986.

Income of self-employed professionals from Manitoba Greenbook (1984) indexed to 1986.

Residential building rentals from Manitoba Department of Finance, PROVDATA (1983) indexed to 1986.

Industrial and office space rentals estimated from Royal LePage data.

Advertising services from Statistics Canada 36-203 (1983) and 56-204 (1984) indexed to 1986.

APPENDIX B

COMPARATIVE STATEMENT
OF SELECTED TAX
REVENUE
1923 - 1986

COMPARATIVE STATEMENT OF SELECTED TAX REVENUE 1923 - 1986

	1923 $	1924 $	1925 $	1926 $	1927 $	1928 $	1929 $	1930 $
Succession Duties & Gift Tax	290,850	455,808	592,257	422,199	757,488	606,575	732,897	1,033,563
Public Amusements	272,324	283,253	193,589	356,169	459,262	378,685	413,744	433,113
Gasoline Tax	55,956	126,077	102,371	432,391	445,645	561,864	657,584	810,925
	619,130	865,138	888,217	1,210,759	1,662,395	1,547,124	1,804,225	2,277,601

	1931 $	1932 $	1933 $	1934 $	1935 $	1936 $	1937 $	1938 $
Succession Duties & Gift Tax	452,023	346,951	267,078	423,416	340,213	375,044	463,963	403,877
Public Amusements	351,629	253,776	182,195	155,709	123,423	160,960	159,233	174,559
Gasoline Tax	1,176,911	1,227,946	1,483,368	1,610,395	1,834,584	1,854,906	2,015,129	2,316,214
Mines (1)	38,493	36,438	37,466	51,541	82,557	54,076	75,361	55,055
	2,019,056	1,865,111	1,970,107	2,241,061	2,380,777	2,444,986	2,713,686	2,949,705

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(1) The Mining Royalty & Tax Act commenced April 28th, 1933, but Revenues from this source were not shown separately until the 1957 accounts. The 1931 and 1932 years of Mines Revenues are shown for a better understanding by the reader of subsequent years combined revenues of Mines & Mining Royalty Taxes.

	1939 $	1940 $	1941 $	1942 $	1943 $	1944 $	1945 $	1946 $
Succession Duties & Gift Tax	605,425	$ 875,449	$ 603,327	$ 737,393	$ 542,814	$ 343,803	$ 666,566	$ 767,275
Public Amusements	173,236	197,827	154,992	156,075	185,976	246,149	274,564	507,327
Gasoline Tax	2,536,838	2,789,088	2,678,148	2,776,320	2,678,148*	2,678,148*	2,678,148*	2,681,548*
Mines	39,526	32,555	27,984	26,474	40,987	50,164	55,581	67,953
Motive Fuel Tax	-	-	-	-	-	-	-	10,364
	3,355,025	3,894,919	3,464,451	3,696,262	3,447,925	3,318,264	3,674,859	4,034,467

*Relates to Taxes guaranteed by the Dominion Government during the currency of the Dominion-Provincial Agreement re Vacating Tax Fields.

	1947 11 Months $	1948 $	1949 $	1950 $	1951 $	1952 $	1953 $	1954 $
Succession Duties & Gift Tax	809,364	403,246	91,622	32,039	28,223	14,520	8,338	5,247
Public Amusements	589,236	634,959	900,212	980,075	979,177	1,116,479	1,214,928	1,248,413
Gasoline Tax	3,036,371	4,567,477	4,889,932	5,466,365	5,900,887	6,678,107	7,422,948	8,145,077
Mines (1)	89,096	125,577	599,428	407,516	669,360	609,453	554,080	448,865
Motive Fuel Tax	19,761	30,212	41,008	44,970	48,767	62,384	94,738	142,005
	4,543,828	5,761,471	6,522,202	6,930,965	7,626,414	8,480,943	9,295,032	9,989,607

(1) The Mining Royalty & Tax Act commenced April 28th, 1933, but Revenues from this source were not shown separately until the 1957 accounts. The 1931 and 1932 years of Mines Revenues are shown for a better understanding by the reader of subsequent years combined revenues of Mines & Mining Royalty Taxes.

COMPARATIVE STATEMENT OF SELECTED TAX REVENUE 1923 - 1986

	1955 $	1956 $	1957 $	1958 $	1959 $	1960 $	1961 $	1962 $
Succession Duties & Gift Tax	11,931	4,759	-	-	-	-	-	-
Public Amusements	1,198,523	1,124,209	888,940	266,601	657,754	694,554	692,452	751,212
Gasoline Tax	8,639,573	9,082,590	11,707,118	12,843,749	13,525,832	14,408,617	15,497,816	19,934,898
Mines (1)	806,352	1,256,018	-	-	-	-	-	-
Mining Royalty Tax	-	-	673,573	303,684	197,563	202,733	355,736	599,476
Motive Fuel Tax	164,889	262,834	382,060	483,147	601,601	712,676	845,962	1,578,866
	10,821,268	11,730,410	13,651,691	13,897,181	14,982,750	16,018,580	17,391,966	22,864,452

	1963 $	1964 $	1965 $	1966 $	1967 $	1968 $	1969 $	1970 $
Succession Duties & Gift Tax	2,419,000	2,271,000	3,903,000	2,956,250	4,106,000	3,749,000	4,595,500	5,790,375
Public Amusements	757,488	829,948	888,979	1,092,465	1,303,754	1,470,547	1,743,778	1,782,153
Gasoline Tax	21,584,707	22,731,769	28,011,308	33,499,523	34,882,929	34,671,134	35,701,311	37,464,103
Mining Royalty Tax	945,207	1,410,961	1,987,927	3,492,331	2,455,604	2,206,156	2,598,939	3,115,323
Mining Claim Lease Tax	-	-	-	112,292	111,385	120,197	121,280	125,240
Mineral Tax	-	-	-	93,451	110,478	123,401	127,799	139,125
Motive Fuel Tax	1,746,896	2,176,429	3,724,875	5,930,418	5,560,318	5,731,822	5,747,444	6,452,264
Tobacco Tax	-	2,718,634	5,207,424	7,593,124	8,084,914	8,011,040	8,210,913	8,500,159
The Revenue Act, 1964, Part I	-	-	1,063,152	4,801,985	4,370,313	3,831,414	4,001,018	4,753,295
Retail Sales Tax	-	-	-	-	-	39,201,425	60,152,738	66,556,956
	27,453,298	32,138,741	44,786,665	59,571,839	60,985,695	99,116,136	123,000,720	134,678,993

(1) The Mining Royalty & Tax Act commenced April 28th, 1933, but Revenues from this source were not shown separately until the 1957 accounts. The 1931 and 1932 years of Mines Revenues are shown for a better understanding by the reader of subsequent years combined revenues of Mines & Mining Royalty Taxes.

4.

COMPARATIVE STATEMENT OF SELECTED TAX REVENUE 1923 - 1986

	1971 $	1972 $	1973 $	1974 $	1975 $	1976 $	1977 $	1978 $
Succession Duties & Gift Tax	4,898,301	4,944,000	1,077,325	5,709,497	5,869,494	6,957,397	7,024,566	8,768,182
Public Amusements	1,744,458	1,784,675	2,000,123	2,229,956	740,631 (4)	623 (4)	-	-
Gasoline Tax	38,926,130	40,316,804	42,710,113	46,264,515	44,512,917	46,958,362	50,035,124	50,768,536
Mining Royalty Tax (2)	4,448,070	2,069,524	5,017,255	19,399,169	20,005,824	230,269	252,846	263,837
Mining Claim Lease Tax	124,986	130,050	146,171	149,453	147,333	79,417	73,776	76,247
Mineral Tax	146,652	133,987	144,746	123,589	219,501	244,138	316,304	290,194
Mineral Acreage Tax	-	-	-	318,989	257,009	388,482	355,018	111,299
Mineral Tax (Incremental) (5)	-	-	-	-	6,977,796	6,238,934	6,202,380	7,105,841
Metallic Minerals Tax (3)	-	-	-	-	-	7,212,310	10,023,075	2,970,140
Motive Fuel Tax	6,830,577	7,446,530	8,237,171	9,938,471	10,742,344	11,246,731	15,574,525	16,028,736
Tobacco Tax	8,795,640	9,070,991	12,852,397	13,583,912	14,184,125	14,594,223	19,460,009	20,641,449
Revenue Act, 1964, Part I	4,888,211	5,200,873	5,658,114	6,203,399	7,646,721	9,591,047	12,325,135	14,118,521
Retail Sales Tax	67,052,538	73,261,718	93,688,876	115,540,423	140,519,697	159,814,736	179,719,312	194,488,061
Corporation Capital Tax	-	-	-	-	-	-	10,207,319	13,217,108
Pari Mutuel Tax	-	-	-	-	1,512,441 (4)	2,365,146 (4)	2,231,969	2,913,820
	137,855,563	144,359,152	171,532,291	219,461,373	253,335,833	265,921,815	313,801,358	331,761,971

(2) Replaced by The Metallic Minerals Act.

(3) Renamed The Mining Tax Act January 1st, 1981.

(4) As at January 1, 1975, the taxing of Pari-Mutuel betting was transferred from the Amusements Act to a new Act, The Pari-Mutuel Tax Act and The Amusements Act was repealed. Consequently, the Public Amusement figure shown in Public Accounts for 1975 of $2,253,072 has been shown for this presentation as $740,631 to Public Amusements and $1,512,441 to Pari Mutuel Tax and in the case of the 1976 Public Accounts figure of $2,365,769 re Public Amusements to $623 to Public Amusements and $2,365,146 to Pari Mutuel Tax per Taxation Division Records. Pari Mutuel betting was first taxed under The Amusements Act by legislation passed in 1945.

(5) Renamed The Oil and Gas Tax Act January 1st, 1981 and that title subsequently used in this report.

COMPARATIVE STATEMENT OF SELECTED TAX REVENUE 1923 - 1986

	1979 $	1980 $	1981 $	1982 $	1983 $	1984 $	1985 $	1986 $	TOTAL 1923 - 1986 PER ACT $
Succession Duties & Gift Tax	4,412,908	788,425	337,768	234,911	128,546	445,904	106,220	78,548	96,087,660
Public Amusements	-	-	-	-	-	-	-	-	38,555,071
Gasoline Tax	58,580,975	59,528,997	61,364,920	81,703,545	84,038,906	99,737,708	101,813,336	114,631,043	1,460,394,724
Mines	-	-	-	-	-	-	-	-	6,337,956
Motive Fuel Tax	16,937,056	18,347,143	19,482,597	27,195,759	32,121,243	42,025,865	45,426,662	49,579,631	379,757,751
Mining Royalty Tax (2)	285,324	83,807	508,987	5,969,094	554	10,012,428	-	-	89,092,201
Mining Claim Lease Tax	76,207	76,597	76,671	76,566	76,616	76,543	76,410	76,723	2,130,160
Mineral Tax	404,421	42,190	-	-	-	-	-	-	2,659,976
Tobacco Tax	26,038,192	25,950,445	30,599,692	36,169,173	45,147,968	54,282,604	66,129,090	77,701,549	523,527,667
Revenue Act, 1964, Part I	12,968,345	18,865,979	19,498,762	21,451,048	22,253,015	29,506,203	32,808,175	34,160,684	279,965,409
Retail Sales Tax	151,182,675	224,367,265	239,389,958	264,735,992	266,970,515	355,553,633	391,338,305	436,790,783	3,520,325,606
Mineral Acreage Tax	473,966	170,354	2,039	684	87	100	354	359	2,078,740
Oil and Natural Gas Tax	7,939,892	8,503,499	9,410,816	10,476,346	12,884,007	15,291,637	14,717,310	14,293,355	120,041,813
Metallic Minerals Tax(3)	12,609,315	21,156,200	23,053,040	8,768,797	224,000	23,642,514	9,216,867	13,738,676	132,614,934
Corporation Capital Tax	13,266,520	14,348,113	16,032,461	17,858,524	22,964,949	24,121,999	24,483,929	29,628,583	186,129,505
Pari Mutuel Tax	3,397,275	3,545,399	3,609,735	4,612,787	4,971,950	4,620,621	4,720,842	5,272,228	43,774,213
Health and Post Secondary Education Tax Levy	-	-	-	-	55,522,735	108,142,503	111,143,652	118,850,387	393,659,277
	308,573,071	395,774,413	423,367,446	479,253,226	547,305,091	767,460,262	801,981,152	894,802,549	7,277,132,663

(2) Replaced by The Metallic Minerals Act.
(3) Renamed The Mining Tax Act January 1st, 1981.
(5) Renamed The Oil and Natural Gas Tax Act January 1st, 1981.

APPENDIX C

FEDERAL TAX CHANGES
TO PERSONAL AND CORPORATE
INCOME TAX -- SALES AND EXCISE
TAX/COSTS 1971 - 1985

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Deduction from tax of the lesser of 20% of tax payable or $20.00 is altogether repealed.	Personal	1971	estimates n.a.
Social development tax (2% of taxable, maximum $120) is to be reduced by the lesser of 2% of taxable income or $20.00.	Personal	1971	estimates n.a.
Single taxpayer basic exemption raised from $1,000 to $1,500.	Personal	1971	estimates n.a.
Married taxpayer basic exemption raised from $2,000 to $2,850.	Personal	1971	estimates n.a.
Spouse's exemption raised from $1,000 to $1,350.	Personal	1971	estimates n.a.
Married exemption for supporting dependent: previously, $2,000 when unmarried taxpayer supports dependent; $2,850 and dependent must live with taxpayer.	Personal	1971	estimates n.a.
Child care expenses introduced: up to $500 per child under 14 or over 14 and infirm with $2,000 limit per family, and may not exceed 2/3 of income of claimant.	Personal	1971	estimates n.a.
Limited employment expenses expanded to 3% of gross income up to $150 deductible.	Personal	1971	estimates n.a.
Expense deduction for those working away from home expanded to include all employees; prevously excluded those employed in construction.	Personal	1971	estimates n.a.
Expansion of list of medical expenses deductible including contributions to government plans and premiums to other plans.	Personal	1971	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Unemployment insurance contributions are made to be deductible and U.I. benefits taxable.	Personal	1971	estimates n.a.
Limit claimable donations to registered charities to 20% of net income, up from old limit of 10% of net income.	Personal	1971	estimates n.a.
Fellowships, scholarships and bursaries made taxable, with an exemption of $500.	Personal	1971	estimates n.a.
For children under 16: $300 deduction and child's income over $950 added to parent's income is replaced by provision whereby $300 deduction is reduced $1.00 for every $2.00 child's income exceed $1,000.	Personal	1971	estimates n.a.
Eliminate $1,000 "unmarried clergyman" deduction for housekeeper costs.	Personal	1971	estimates n.a.
For children over 16: $550 deduction and child's income over $950 added to parent's income is replaced by $550 deduction which is reduced by $1.00 for every $1.00 of child's income which exceeds $1,050.	Personal	1971	estimates n.a.
$500 exemption for those over 70 replaced by $650 exemption for those 65.	Personal	1971	estimates n.a.
For dependents other than children the dependents income over $950 added to taxpayer's income. Under new bill, dependent's income over $1,050 applied against 300-500 dollar deduction.	Personal	1971	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Special deduction of $500 for blind and those confined to bed or wheelchair increased to $650.	Personal	1971	estimates n.a.
Pension plans, RRSP and deferred profit sharing plans: limit for deductible contributions for profit sharing and pension plans increased for $1,500 to $2,500; for RRSP's, from $2,500 to $4,000; restriction whereby 90% of assets in plans must be Canadian; special rules for taxing lumpsum withdrawals from pension and profit-sharing plans withdrawn and withdrawals taxed at ordinary rates.	Personal	1971	estimates n.a.
Training allowances made taxable except for living away from home allowance.	Personal	1971	estimates n.a.
Research grants now become taxable with a deduction for research expenditures.	Personal	1971	estimates n.a.
Benefit from personal use of automobile provided by employer or business taxed in all circumstances.	Personal	1971	estimates n.a.
Servicemen taxed as ordinary citizens; previously taxed monthly.	Personal	1971	estimates n.a.
Federal gift and estate taxes eliminated.		1971	estimates n.a.
Rates of corporate tax changed from 21% on first $35,000 and 50% on balance to: a general rate reduced 1% annually to 46% in 1976; if eligible for small business deduction, 25% tax on first $50,000 of business income.	Corporate	1971	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Individual shareholder's dividend tax credit increased from 20% to 33 1/3%.	Personal	1971	estimates n.a.
Accelerated depreciation introduced assets of new mines; annual deduction made equal to the greater of: income of the new mine or 30% of the unclaimed balance.	Corporate	1971	estimates n.a.
Proceeds from the sale of mining properties now made subject to taxation.	Corporate, Personal	1971	estimates n.a.
Corporations allowed to take full deduction for interest on money borrowed to buy shares. Individuals only were previously allowed this deduction.	Corporate	1971	estimates n.a.
Farmers' and fishermans' straightline deduction repealed in favor of diminishing balance method.	Personal	1971	estimates n.a.
Income averaging introduced for all taxpayers whose income in a year exceeds four-year average by 20% and immediately preceding year by 10%; replaces rule which applied to farmers and fishermen only.	Personal	1971	estimates n.a.
Rate schedule change: surtax on foreign investment income eliminated; rates from 14.8% to 82.4% changed to 22.1% to 61.1%.	Personal	1971	estimates n.a.
Capital gains tax introduced; one half capital gains to be included in income, one half capital losses to be deducted from gains; subject to general averaging and forward averaging provisions. Individuals may deduct up to $1,000 of losses	Corporate	1971	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
against other income; Rollovers permitted for expropriation or destruction, transfer of 80% owned corporation, liquidation of 100% owned subsidiary, certain amalgamations/reorganizations, transfers to a partnership, certain dissolutions of partnerships; windfall gains taxable, etc.			
Guaranteed Income Supplement made exempt from taxation.	Personal	1971	estimates n.a.
Removal of 12% sales tax on margarine and all anti-pollution devices used in the production process.	Sales	1971	15 annually beginning in 1971-72
Abolition of 15% excise tax on television, radio and hi-fi sets, components and other related equipment.	Excise	1971	40 annually beginning in 1971-72
Surtax of 3% on tax payable by corporations is eliminated.	Corporate	1971	estimates n.a.
Surtax of 3% on tax payable in excess of $200 by individuals reduced to 1.5%.	Personal	1971	estimates n.a.
Amendment to tax schedule to exempt from tax persons with taxable incomes of $500 or less; tax reduced on persons with taxable incomes to $3,000.	Personal	1971	estimates n.a.
Individual income tax reduced 3% (temporary).	Personal	1971 (October)	125 1971-72 225 1972-73
Corporate income tax reduced by 7% (temporary).	Corporate	1971 (October)	160 1971-72 175 1972-73
Allow capital property bequeathed to charitable organizations to be valued at its fair market value for charitable deduction.	Personal	1972	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Income derived from annuities resulting from personal injury awards is exempt from tax until the person is 21.	Personal	1972	estimates n.a.
Increases in the value of property distributed in kind from employees' profit-sharing plans to be taxed only when disposed of.	Personal	1972	estimates n.a.
Scientific research equipment for use in the development of new products/processes is to be exempt from the 12% sales tax.		1972	estimates n.a.
Special exemption for blind, disabled and senior citizens increased to $1,000 from $650.	Personal	1972	estimates n.a.
Introduction of deduction of $50.00 per month for post-secondary students.	Personal	1972	estimates n.a.
Cost of machinery and equipment purchased for manufacturing and processing to be written off on a straight line basis at 50%. Replaces measure permitting write-off of these expenses at 115% of their cost.	Corporate	1972	estimates n.a.
Extension of two-year write-off for installation of water and air pollution control equipment.	Corporate	1972	estimates n.a.
Rate reduction on manufacturing profits: top rate of corporate tax applicable to manufacturing and processing profits reduced from 49% to 40%; effective rate for profits eligible for the small business deduction reduced from 25% to 20%.	Corporate	1972	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Basic exemption for all taxpayers increased to $1,600 from $1,500.	Personal	1973	estimates n.a.
Exemption for a married couple increased to $3,000 from $2,850.	Personal	1973	estimates n.a.
Basic federal tax cut by 5% with a maximum reduction of $500, a minimum reduction of $100.	Personal	1973	estimates n.a.
Personal income tax system to be indexed beginning in 1974; to be accomplished through raising tax brackets by increasing principal exemptions based on C.P.I.	Personal	1973	estimates n.a.
Federal sales tax abolished on all children's clothing.	Sales	1973	estimates n.a.
Federal sales tax abolished on all 'near food' products, e.g. bars, pop, etc.	Sales	1973	estimates n.a.
Special luxury tax abolished on toilet articles and cosmetics.	Excise	1973	estimates n.a.
Special luxury tax abolished on clocks and watches with the exception of those where the manufacturer's price exceeds $50.00.	Excise	1973	estimates n.a.
Family farms to be allowed to pass from generation to generation free of capital gains tax.	Other	1973	estimates n.a.
Income or profits tax on business or employment income paid to a foreign country will qualify for foreign tax credit.		1973	esimates n.a.
Increase in the minimum tax cut from $100 to $150.	Personal	1974	380 annually beginning in 1974-75

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Deduction of up to $1,000 of interest income from bonds, term deposits, etc. and dividends.	Personal	1974	230 annually beginning in 1974-75
Amendment to RRSP to allow creation thereof for a non-working spouse.	Personal	1974	estimates n.a.
Extension of Registered Home Ownership Savings Plan.	Personal	1974	100 annually
Increase in the federal tax cut from 5% to 8% maximum $750, and additional increase in min. cut from $150 to $200.	Personal	1974	615 annually beginning in 1975-76
Extension of interest deduction to include dividend income.	Personal	1974	10 annually beginning in 1975-76
Allow transfer to a spouse the unused portion of the age exemption.	Personal	1974	35 annually beginning in 1975-76
Tax structure modifications to the resource industries: - a basic 50% tax rate of which will be applied abatements/ incentives. - 15 point abatement of federal tax for mining production profits resulting in a net federal rate of 25%. - royalties, taxes, etc. no longer recognized as an income tax deduction. - 10 point profit abatement now 12. - exploration write-off now 100%.	Corporate	1974	+335 annually
Install 10% corporate surtax on corporate profits.	Corporate	1974	+185 in one year only 1974-75
Reduce federal tax-free reserve for banks and other financial institutions.	Other	1974	+45 annually beginning in 1974-75
Carrying costs on land to be capitalized, effective 1974.	Personal, Corporate	1974	+25 annually beginning in 1974-75

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Increase in the limit for small business tax rate.	Corporate	1974	95 annually
Extension of two year write-off for machinery and equipment used in manufacturing and processing in Canada.	Corporate	1974	beginning in 1975-76 150 annually
Extension of two year write-off for pollution control equipment.	Corporate	1974	10 annually beginning in 1975-76
Remove limit for capital cost allowances for rental unit construction.	Corporate	1974	10 annually beginning in 1975-76
Exemption of clothing and footwear from federal sales tax.	Sales	1974	280 annually beginning in 1975-76
Reduction of federal sales tax from 9% to 5% on building and construction equipment.	Sales	1974	450 annually beginning in 1975-76
Exemption from federal sales tax of construction equipment.	Excise/Sales	1974	40 annually beginning in 1975-76
Exemption from federal sales tax of transportation equipment.	Sales/Excise	1974	100 annually beginning in 1975-76
Day Care Centres added to list of institutions exempt from federal sales tax.	Sales/Excise	1974	20 annually beginning in 1975-76
Increase in federal tax on tobacco, liquor and wines.	Sales/Excise	1974	+130 annually beginning in 1975-76
100% income deduction rule extended to donations to "designated institutions" as well as Crown institutions.	Other	1974 (October)	estimates n.a.
Tax of 30% of market value imposed on institutions who sell the donated object, property, etc.	Other	1974 (October)	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Airport tax on domestic flights and those to the continental U.S. set at 5% of air fare, maximum $5.00, and a flat $5.00 on international flights. Replaces flat $2.80 imposed on all those enplaning in Canada.	Other	1974 (December)	estimates n.a.
Reduce tax on wines containing less than 7% alcohol by 3 1/4¢/ 25 ozs.	Excise	1975	estimates n.a.
Increase air transportation tax from 5% to 8%.	Other	1975	estimates n.a.
Extension of temporary free entry for aircraft/aircraft engines to June 1977.	Other	1975	estimates n.a.
Introduction of tax of 10 cents/gallon on gasoline used for private cars and other personal uses.	Excise	1975	estimates n.a.
Reduce the 50% rate of corporate tax for production profits for minerals, oil and gas to 46% generally applicable to corporations; 15 point abatement w/d.	Corporate	1975	estimates n.a.
Provide extra deduction from income as an allowance for provincial resource levies; allowance will be 25% of profits.	Corporate, Personal	1975	estimates n.a.
Impose ceiling on the escalation of medical care expenses.	Other	1975	estimates n.a.
Introduction of a federal investment tax credit of 5% against the cost of new buildings and machinery acquired for use in logging; processing, exploring, drilling, petroleum, minerals, farming and fishing.	Corporate, Personal	1975	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Exempt Canadian business from normal withholding tax on interest paid to non-Canadians.	Corporate	1975	estimates n.a.
Reduction in the existing federal tax credit for higher-income taxpayers.	Personal	1975	estimates n.a.
Remove 5% sales tax on insulation materials.	Sales	1975	estimates n.a.
Increase in the tax on high energy-consuming vehicles.	Excise	1976	+35 annually
Introduction of special tax on automobile air conditioners at the point of production.	Excise	1976	+7 annually
Extension of air transportation tax to persons purchasing air transport outside Canada and using Canadian airports.	Other	1976	+15 annually
All deductions for child care expenses doubled. Annual limit rises from $500 to $1,000 per child; rises from $2,000 to $4,000 per family; max. weekly rises from $15.00 to $30.00.	Personal	1976	-15 annually beginning in 1977-78
Increase deductible amounts which can be annually contributed to retirement plans.	Personal	1976	-60 annually beginning in 1977-78
Increase in income subject to the low rate of tax for Canadian-controlled private corporations. Limit raised 50%.	Corporate	1976	-30 annually beginning in 1977-78
Removal of federal sales tax from energy-conserving equipment.	Sales	1976	-8 annually beginning in 1977-78
Numerous extensions and broadening of temporary tariff reductions.	Sales	1976	-40 annually

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Federal investment tax credit changes: - extension of 5% credit - increase in rate of credit for certain regions - extension of the credit to current and capital expenditures on research and development.	Corporate, Personal	1977	-385 1977-78 -485 1978-79
Increase in federal tax credit by $50.00 per dependent child under 18 years of age.	Personal	1977	-275 annually beginning in 1977-78
Increase in general employment expense deduction limit from $150.00 to $250.00.	Personal	1977	-115 annually beginning in 1977-78
Increase in dividend tax credit in 1978 from 33.3% to 50%.	Personal	1977	One-year decrease 1978-79, of -120.
Increase in capital loss offset against other income from $1,000 to $2,000.	Corporate	1977	-45 annually -5 1977-78
Introduction of deduction equal to 3% of inventories for businesses.	Corporate	1977	-300 annually -275 1977-78
Depletion for high-cost oil and gas wells increased.	Corporate	1977	-20 annually beginning in 1977-78
Increase in the minimum federal tax reduction to $300 from $200 for 1978 tax year only.	Personal	1977 (October)	estimates n.a.
Introduce employment credits for private business firms.	Other	1977 (October)	estimates n.a.
Extend 'fast write-iff' for anti-pollution equipment.	Other	1977 (October)	estimates n.a.
Extension of the deductibility of losses from the rental of MURB's, i.e. MURB tax shelter.		1977 (October)	estimates n.a.

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Limit on the deduction of depletion earned on certain oil expenditures increased to 50% of total profit.	Corporate	April 1978	estimates n.a.
Additional capital cost allowance provided on depreciable railway systems.	Corporate	April 1978	estimates n.a.
Special allowance to permit deduction from taxable income of 50% of the costs of increases of research and development activity (total now: 150%).	Corporate	April 1978	-50 annually beginning in 1979-80
Rules on tax incentives for Canadian films modified to allow the completion of filming.	Other	April 1978	estimates n.a.
Reduction in federal income tax rates in the North West Territories to facilitate introduction of a territorial income tax with no tax increase for individuals or corporations.	Personal, Corporate	April 1978	estimates n.a.
Costs of machinery, equipment and other facilities for enhancing oil recovery subject to increased depletion allowance.	Corporate	April 1978	estimates n.a.
Reduction in the special excise tax on gasoline to 7¢/gallon from 10¢/gallon.	Sales/Excise	1978 (August)	-90 1978-79 -165 annually
Guaranteed Income Supplement increase of $20.00 per household eligible; G.I.S. made subject to indexing.	Personal	1978 (August)	-70 1978-79 -290 annually
Refundable income tax credit of $200 per child introduced.	Personal	1978 (August)	-810 1979-80
Reduce family allowance payments to $20.00/child, and made subject to indexing.	Personal	1978 (August)	+170 1978-79 +690 annually

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Increase in air transportation tax to 15% from 8% with a maximum of $15.00 from the previous $8.00.	Other	November 1978	+72 per annum beginning in 1979-80
Changes in treatment of income debentures and term preferred shares; removes favourable tax treatment.	Other	November 1978	+150 annually beginning in 1979-80
Reduce federal sales tax on all items (excluding alcohol and tobacco) from 12% to 9%.	Sales	November 1978	-1,000 1979-80 -1,015 1980-81
Increase employment expense deduction; maximum deduction rises from $250 to $500.	Personal	November 1978	-230 1979-80 -270 1980-81
Research and Development Tax Credit; increase rate of credit, extend credit to transport equipment, increase rate of credit for R & D and special rate of 25% for small firms, indefinite extension of credit.	Corporate	November 1978	-655 1980-81 -155 1981-82
Extension of drilling fund incentive for 1979-80; consists of deductions to corporations.	Corporate	November 1978	-80 1979-80 -60 1980-81
Development expenses in mining may be deducted at 100% (previously 30%) and allow social capital expenditures in mining to qualify for depletion allowance.	Corporate	November 1978	-25 annually from 1979-80
Various trade negotiation multi-national tariff reductions.	Other	1979 (December)	-160 1980-81 -335 1981-82 -550 1982-83

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Extend small business development bond provisions until 1981.	Corporate	1980	-50 annually beginning in 1981-82
Reduction of excise tax on fortified wine.	Excise	1980	-5 1980-81 -10 1981-82 -10 1982-83 -10 1983-84
Adjust excise taxes and duties on alcohol and tobacco in line with price increases.	Excise	1980	+100 1981-82 +290 1982-83 +475 1983-84
Apply federal sales tax to marginal manufacturing activities.	Sales	1980	+25 1981-82 +30 1982-83 +35 1983-84
Change in federal sales tax on advertising inserts/supplements and advertising publications. Now taxed at 'manufactured goods' rate; previously taxed at the (lower) newspaper publication rate.	Sales	1980	+10 annually from 1981-82
Extended tax relief for metric scales and metric conversion equipment to December 3, 1983.	Sales	1980	-1.5 1981-82 -3.0 1982-83
Extend extra 4% write-off for railway track and grading.	Sales	1980	-5 1981-82
Allow credit union centrals to flow through dividends to their member credit unions; these funds were previously taxable.	Sales	1980	estimates n.a.
Petroleum and Gas Revenue Tax of 8% on revenue from production in Canada.	Excise	1980	+1,410 1981-82 +1,745 1982-83 +1,965 1983-84
Natural Gas and Gas Liquids Tax. Several measures were imposed.	Excise	1980	+225 1980-81 +1,285 1981-82 +2,220 1982-83 +2,880 1983-84

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Modifications to depletion, changes to taxation of heavy oil upgrading plants, and change in definition of exploration and development expenses.	Corporate (n.a. to individuals)	1980	+260 1981-82 +445 1982-83 +545 1983-84
Extend indefinitely provision allowing write-off of exploration expenses by individuals and non-resource Corps.	Corporate, Personal	1980	Takes effect in 1982: -125
Temporary reintroduction of the provision for MURB's to act as 'tax shelters' (the provision was to expire in 1980).	Personal	1980	-15 in each year, 1981-82 onward.
Extend oil export charge to marine and aviation fuel used in international transport.	Personal	1980	+330 1981-82 +450 1982-83 +525 1983-84
Require 'soft costs', (promotional expenses, legal fees, etc.) on real estate investments to be capitalized.	Personal	1981	+10 annually from 1983 to 1985-86
Allow 50% CCA in year assets are acquired (*similar changes were instituted for unincorporated business in the same budget).	Corporate	1981	+110 1981-82 +1,100 1982-83 +840 1983-84 +435 1984-85 +435 1985-86
Extend corporate surtax for 1982 and 1983 at 5% and 2 1/2% rates.	Corporate	1981	+15 1981-82 +465 1982-83 +225 1983-84
End reserve deductions on sales of properties.	Corporate	1981	+60 annually beginning in 1982-83
Require professional corporations to inventory work in progress (*similar change instituted for unincorporated professional).	Corporate	1981	+30 1982-83 +5 1983-84 +5 1984-85 +5 1985-86

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Increase income qualifying for low small business tax rate. Limited to businesses with cumulative earnings of $750,000.	Corporate	1981	-50 1982-83 -55 1983-84 -60 1984-85 -65 1985-86
End deductibility of dividends from cumulative small business income limit.	Corporate	1981	small revenue gain
Impose 12.5% tax on dividends paid by small businesses from income taxed at lower rates.	Corporate	1981	+45 1981-82 +90 1982-83 +110 1983-84 +125 1984-85 +140 1985-86
Prevent excess transfer of claims for $1,000 investment and pension income exemptions; transfer between spouses is now limited.	Personal	1981	+25 1983-84 +26 1984-85 +27 1985-86
Restrict claims for support of non-resident dependents to spouses and children of the taxpayer.	Personal	1981	+5 1982-83 +20 1983-84 +23 1984-85 +25 1985-86
Limit deduction of tuition fees to post-secondary/vocational schools; non-educational and recreational-type no longer allowed.	Personal	1981	+2 1982-83 +10 1983-84 +11 1984-85 +12 1985-86
Change taxation of employee benefits from cars, health plans, transport passes; ends tax-free status. Does not affect those on temporary job assignment.	Personal	1981	+175 1983-84 +195 1984-85 +220 1985-86
Change taxation of low-interest loans to company's employees and shareholders.	Personal	1981	+50 1983-84 +60 1984-85 +70 1985-86
Require professionals to inventory 'work in progress' for tax purposes. Now, work unbilled by year-end will be taxed.	Personal and Incorporated	1981	75 1983-84 10 1984-85 10 1985-86

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Allow 50% CCA in the year assets are acquired (unincorporated businesses only).	Personal	1981	5 1981-82 35 1982-83 100 1983-84 85 1984-85 45 1985-86
Repeal general income-averaging provisions; replace with new forward income-averaging mechanism to allow taxpayers with large gains in income for a year to average them over future (lower tax bracket) year.	Personal	1981	+250 annually over three years, 1983-86
Repeal deduction for income-averaging annuities; prevents spread of capital gains incomes, athlete/entertainer income, etc. over a number of years.	Personal	1981	+895 1983-84 +475 1984-85 +445 1985-86
End general averaging and introduce new forward averaging.	Personal	1981	+250 annually beginning in 1983-84
Limit deduction for interest costs on investments to the amount of investment income in the year.	Personal	1981	+35 1982-83 +190 1983-84 +205 1984-85 +225 1985-86
Restrict $1,000 pension deduction to retired persons. Up to now, "retired" individual who worked could claim pension deduction on first $1,000 of pension income.	Personal	1981	+10 1982-83 +20 1983-84 +22 1984-85 +25 1985-86
Extend small business bond provision one year for corporations and unincorporated business "in financial difficulty"; allows borrowing at reduced rates.	Corporate	1981	-20 annually from 1982-83 to 1985-86
Restrict after-tax financing through term preferred shares; several measures proposed.	Corporate	1981	preventive measure

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
End reduction in withholding tax on dividends from corporations with degree of Canadian ownership.	Corporate	1981	+5 1981-82 +35 1982-83 +40 1983-84 +45 1984-85 +50 1985-86
Restrict refund of Part 1 tax for private corporations.	Corporate	1981	+5 1981-82 +10 1982-83 +12 1983-84 +15 1984-85 +20 1985-86
Broaden tax exemption for board and lodging benefits at remote work sites.	Personal	1981	small revenue reduction
Permit tax-free transfers of RRSP funds between spouses on a marriage breakdown.	Personal	1981	small revenue reduction
Extend taxes to all job termination payments.	Personal	1981	small revenue gain
Impute interest on low interest loans from corporations to their foreign subsidiaries.	Corporate	1981	uncertain
Restrict deferral of capital gains tax and trading of tax losses when change of control of a corporation takes place.	Corporate	1981	uncertain
Reduce terminal loss deduction on demolition of buildings.	Corporate and Personal	1981	small revenue gain
Defer changes in definition of exploration expenses for one year.	Corporate	1981	-40 to -70 for 1981-82 only
Reduction of marginal tax rates for individuals; reduces top rate from 43 to 34%; combined with prov. tax, now 50%.	Personal	1981	-180 1981-82 -1,120 1982-83 -1,295 1983-84 -1,470 1984-85 -1,660 1985-86
Changes to federal tax reductions; restructured to provide for smaller tax reduction for higher-income wage earners; reduction increased for lower income individuals.	Personal	1981	+135 1981-82 +655 1982-83 +35 1983-84 +405 1984-85 +420 1985-86

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Structural change to sales tax. Instead of being levied on the first sale of goods by domestic manufacturers or when imports first enter Canada, the tax will be imposed primarily at the point goods are sold to retailers.	Sales/Excise	1981	little change

TAX CHANGES IN THE FEDERAL BUDGET, JUNE - OCTOBER: 1982

Change	Year	Type	Net Revenue Impact
Indexing factor for personal exemptions	1982 (Jn)	Personal	1.3 Billion
Canadians investing in a new form of term deposit taxed on real interest, not nominal interest income	1982 (Jn)	Personal	N.A.
Canadians investing in common shares will be taxed on capital gains reflecting real income, not nominal income from the gains	1982 (Jn)	Personal	N.A.
12.5% distributions tax proposed in 1981 on small business postponed until January, 1983	1982 (Jn)	Corporate	-90 1982-83
Modifications regarding forward averaging by athletes and artists	1982 (Jn)	Personal	N.A.
Extension of exemption from taxation of employee housing and travel benefits	1982 (Oct)	Personal	Small revenue reduction
Federal sales tax moved from manufacturers to wholesale level	1982 (Oct)	Excise/Sales	N.A.
Unemployment Insurance premium rates rise from $1.80/$100 insurable earnings to $2.30/$100 for employees, up from $2.52/100, established in 1980. Previous rates were established in 1976; the rates were $1.65/$100 for employees and $2.31/$100 for employers.	1982 (Oct)	Other	N.A.
"Canadian ownership special charge" on oil; $1.15/barrel and 14¢/________ on natural gas	1982 (Oct)	Other	+786 1982 (actual)

TAX CHANGES IN THE FEDERAL BUDGET, APRIL 1983

Change	Year	Type	Net Revenue Impact	
Increase the rate of employment expense deduction from 3% to 2% in 1983 tax year	1983	Personal	-130 -135	1983 1984
Repeal $100 standard medical/charitable deduction starting in 1984 tax year	1983	Personal	+80	1984
Federal tax reduction modified; reduced to $100 from $200 in 1985 and to $50 in 1986	1983	Personal	N.A.	
Federal tax reduction phased out for higher income individuals; reduced by 10% of BFT in excess of $6,000 beginning in 1984	1983	Personal	+265	1984
RHOSP modified to allow claim on additional deduction equal to $10,000 minus the total of all tax-deductible RHOSP contributoins by them; RHOSP's now allowed to qualify as tax-free for the purchase of new home furnishings in tax year 1983	1983	Personal	-50 -75	1983 1984
Indexed Security Investment Plan; effective October 1, 1983	1983	Personal	Small Reduction	
Extended carryback of capital losses	1983	Personal	No Change	
Introduce 80% overseas employment tax credit; will apply to Canadian tax otherwise payable to $100,000. Replaces 50% deduction of net overseas employment income.	1983	Personal	Small Reduction	

Change	Year	Type	Net Revenue Impact	
Double child care expense deduction limits to $2,000 ($8,000 max.) from $1,000 ($4,000 max.)	1983	Personal	-50 -55	1983 1984
Maintain current level of exemption for children under 18; effective 1984	1983	Personal	+35	1984
Increase child tax credit from $326 to $343	1983	Personal	+85 -90	1983 1984
Maintain 1982 level of income threshold for the child tax credit and change in the definition of family income	1983	Personal	+125 +235	1983 1984
Introduce 6% tax on pay-T.V. and cable payments	1983	Sales/Excise	+20 +50	1983 1984
"Special recovery tax" increases federal excise taxes from Oct. 1984 to Dec. 1988; from 9% to 10% on taxable goods; to 6% on construction materials and 13% on alcoholic beverages and tobacco	1983	Sales/Excise	+70	1984
Air transportation tax reduced beginning June 1, 1983; where 2 tickets issued for one trip (journey), tax applies only to one; other minor changes	1983	Sales/Excise	No Change	
Other sales/excise tax changes	1983	Sales/Excise	No Change	
Allow extended carryovers of business and capital losses; carryback 3 years, carryforward now 7 years	1983	Corporate	-305 -225	1983 1984
Remove limits on claiming of investment tax credit and extend carryovers on all investments after April 19	1983	Corporate	-190 -280	1983 1984

Change	Year	Type	Net Revenue Impact	
"Special recovery" refundable investment tax credit instituted; tax credit earned on investments will be refunded into cash for those who could not otherwise use the full credit. Rate of refund is 40% for unincorporated business and small corporations and 20% for other corporations	1983	Corporate	-115	1983
			-120	1984
"Special recovery" share-purchase tax credit; corporations will be allowed to issue shares which will entitle the first purchaser to a tax credit of 25% of issue price paid. Share purchase tax credits claimed by share purchasers will reduce the amount of the tax credit available to the corporation to reduce its tax.	1983	Corporate	-50	1983
			-70	1984
Extend 7% investment tax credit to heavy construction equipment	1983	Corporate	-20	1983
			-30	1984
R and D tax incentives; base rate of credit raised to 20% from 10% and small busines eligible for credit of 35% of R and D expenses; other technical amendments	1983	Corporate	-150	1984
Deduct enhanced oil recovery expenditures from PGRT on all investments after December 31, 1982.	1983	Corporate	-20	1983
			-25	1984
Suspend incremental oil revenue tax for one year, beginning June 1, 1983	1983	Corporate	-190	1983
			- 35	1984
Extend deduction of earned depletion for mining exploration	1983	Corporate	-15	1983
			-20	1984

Change	Year	Type	Net Revenue Impact	
Repeal aviation turbine fuel tax provisions	1983	Sales/Excise	-15	1983
			-20	1984
Repeal transportation fuel recovery charge on marine fuel	1983	Other	-25	1983
			-65	1984
Increase tourist exemption and other tariff changes	1983	Other	-5	1983
			-10	1984
Canadian Ownership Special charge (introduced in Oct. 82) extended	1983	Other	+220	1983
			+965	1984

FEDERAL TAX CHANGES, OCTOBER, 1984 AND TAX CHANGES IN THE FEDERAL BUDGET, MAY, 1985

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT	
Increase manufacturers' sales tax to 10% effective October 1, 1984.	Sales/Excise	1984 (Sept)		
Cumulative capital gains tax exemption to lifetime limit of $250,000 of taxable capital gains beginning in 1985 tax year. To be phased in, except for qualified farm property where total exemption is available in 1985. Other changes.	Personal	1985	-550 -700	1985 1986
Modification of personal income tax indexation in 1986 tax year.	Personal	1985	+635	1986
Temporary surtax of 2 1/2% on basic federal tax of between $5,000 and $15,000, and of 5% over $15,000 effective July 1, 1985. These rates will be doubled for the 1986 tax year.	Personal	1985	+235 +500	1985 1986
Elimination of federal tax reduction in 1986.	Personal	1985	+650	1986
Elimination of RHOSP deduction for contributions after May 22, 1985.	Personal	1985	+80 +105	1985 1986
New limits for pension plan contributions to be phased in beginning in 1986 to eventual maximum of $15,500 in 1990. Applies to both employer-sponsored and RRSP pension plans.	Personal	1985	-80	1986
Exemption for interest-free housing loans applicable to moves made after May 23, 1985.	Personal	1985	-5 -10	1985 1986
Extension of disability deduction to 1986 tax year.	Personal	1985	-40	1986

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Modification of exemptions for children and other dependents effective 1987.	Personal	1985	No change
Modification to the Child Tax Credit effective 1986.	Personal	1985	-150 1986
Indexed Security Investment Plan repealed as of January 1, 1986.	Personal	1985	N.A.
Repeal of special RRSP contribution for farm capital gains applicable to contributions made after May 23, 1985.	Personal	1985	N.A.
Repeal of $200,000 inter-generational rollover for small business corporation shares effective in 1988.	Personal	1985	N.A.
Exclusion of capital gains from the $1,000 investment income deduction in 1985.	Personal	1985	N.A.
Repeal of life insurance capital dividend effective May 24, 1985.	Personal	1985	N.A.
Limit deduction of capital losses created through capital cost allowance claims against other income for such business tax shelters as yachts, recreational vehicles, hotels, nursing homes, etc. in 1985.	Personal	1985	N.A.
Modification to the $500 exemption for prizes and awards received after May 23, 1985.	Personal	1985	Small increase
Deductibility of employee dues for parity or advisory committees in 1985.	Personal	1985	Small reduction
Cash-basis accounting for individual artists in 1985.	Personal	1985	Small reduction
Deduction for artist's work donated to a charity after January 1, 1985.	Personal	1985	Small reduction

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Deduction for gifts of intangible property to a charity after January 1, 1985.	Personal	1985	Small reduction
Extension of income attribution rules to loans (income splitting) effective May 23, 1985.	Personal	1985	Possibly significant revenue in later years
Introduction of a federal tax credit for purchases of shares of a labour-sponsored venture capital corporation effective May 24, 1985.	Personal	1985	Small reduction
Temporary surtax of 5% of federal tax payable before tax credits for corporations for the period July 1, 1985 to June 30, 1986.	Corporate	1985	+165 1985 +295 1986
1% capital tax on chartered banks and trust companies for the period January 1, 1986 to December 31, 1987.	Corporate	1985	+85 1986
Termination of the Scientific Research Tax Credit on May 23, 1985.	Corporate	1985	+100 1986
Refund of Investment Tax Credit on first $2 million annually of current R&D expenditures by small companies after May 23, 1985.	Corporate	1985	−80 1985 −125 1986
Extension of 50% Investment Tax Credit for 1986.	Corporate	1985	−30 1986
50% Investment Tax Creedit for approved projects on Cape Breton Island for expenditures after May 23, 1985.	Corporate	1985	Depends on approvals
Extension of small business bond provision January 1, 1986 to December 31, 1987.	Corporate	1985	−7 1986

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT	
Extension of withholding tax exemption corporate debt and government securities to December 31, 1988.	Corporate	1985	-30	1986
Restriction of Investment Tax Credit to expenditures net of grants and other assistance payments after May 23, 1985.	Corporate	1985	+30 +50	1985 1986
Denial of 3% inventory allowance on inventory of currency for taxation years commencing after May 23, 1985.	Corporate	1985	Small gain	
Denial of deduction for excess reserves of banks for tax years commencing after May 23, 1985.	Corporate	1985	Small increase	
Restriction of carry-over of Investment Tax Credit on corporate acquisitions after May 23, 1985.	Corporate	1985	Small increase	
Extension of term-preferred share rules to shares guaranteed or insured by financial institutions for shares issued after May 23, 1985.	Corporate	1985	Small increase	
Taxation of reimbursements or inducements in respect of expenses or asset acquisitions after May 22, 1985.	Corporate	1985	Small increase	
Reserve for life insurance claims not yet reported in 1985.	Corporate	1985	Small reduction	
Phase-out of the Petroleum and Gas Revenue Tax (PGRT) effective January 1, 1986.	Excise	1985	-515	1986
Exemption from PGRT for new production revenues from April 1, 1985.	Excise	1985	-100 -250	1985 1986

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT	
Offset of unused exploration (CEE) and development (CDE) income tax deductions against PGRT after April 1, 1985.	Excise	1985	-140 -225	1985 1986
Annual $10,000 exemption from PGRT for individuals in 1986.	Excise/ Personal	1985	-2	1986
Repeal of the Natural Gas and Gas Liquids Tax effective June 1, 1985.	Excise	1985	No change	
Repeal of the Incremental Oil Revenue Tax for production occurring after December 31, 1984.	Excise	1985	No change	
Removal of the Canadian Ownership Special Charge for petroleum, natural gas and liquids consumed in Canada effective June 1, 1985.	Excise	1985	-460 -920	1985 1986
1% increase in the sales tax rates effective January 1, 1986 of: - construction goods, and cable and pay television services from 6% to 7%; - alcoholic beverages and tobacco fom 13% to 14%; - general manufacturers' sales tax from 10% to 11%.	Sales/Excise	1985	+825	1986
Imposition of 2.0 cents/litre excise tax on motive fuels effective September 3, 1985.	Excise	1985	+160 +930	1985 1986
Increase in excise levies on cigarettes and tobacco as of Budget announcement.	Excise	1985	+140 +320	1985 1986
De-indexation of excise levies on alcohol and tobacco products effective September 1, 1985.	Excise	1985	-15 -95	1985 1986

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT	
2% increase in excise levies on alcohol effective May 24, 1985.	Excise	1985	+10	1985
			+20	1986
Extension of the federal sales tax as of July 1, 1985 to:	Sales	1985		
- candy and confectionery			+35	1985
			+110	1986
- soft drinks			+45	1985
			+145	1986
- pet food			+10	1985
			+30	1986
- health goods and surgical/ dental instruments			+25	1985
			+75	1986
- insulation, wood stoves and similar goods			+15	1985
			+60	1986
Elimination of special provision for off-site construction materials effective July 1, 1985.	Excise	1985	+30	1985
			+90	1986
Shift in tax on video cassettes to the wholesale level effective July 1, 1985.	Sales/Excise	1985	Small increase	

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT	
Prepayment of child tax credit.	Personal	1986	does not affect full-year cost	
Refundable sales tax credit introduced.	Personal	1986		
			-330	1986
			-335	1987
			-340	1988
			-350	1989
			-360	1990
Exemptions for residents of the North and isolated posts.	Personal	1986	-120	1987
			-125	1988
			-130	1989
			-135	1990
New options for maturing RRSPs and RRIFs.	Personal	1986	no revenue impact	
Increase in the disability deduction from $2,610 to $2,860.	Personal	1986	-10	1986
			-10	1987
			-10	1988
			-10	1989
			-10	1990
Corporate income tax rate reduction from 36% to 33% phased in over three years.	Corporate	1986	-255	1987
			-800	1988
			-1,335	1989
			-1,630	1990
Elimination of inventory allowance.	Corporate	1986	+375	1986
			+460	1987
			490	1988
			+530	1989
			+570	1990
Reduction of the investment tax credit.	Corporate	1986	+240	1987
			+535	1988
			+980	1989
			+1,110	1990
Extension of refundable investment tax credit.	Corporate	1986	-135	1986
			-175	1987
			-145	1988

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT	
3% surtax on basic federal tax of corporations.	Corporate	1986	+390	1987
			+420	1988
			+455	1989
			+475	1990
Removal of tax on small business dividend distributions.	Corporate	1986	-250	1987
			-260	1988
			-275	1989
			-290	1990
Enhancements to Cape Breton investment tax credit.	Corporate	1986	depends on approvals	
Changes in non-resident withholding taxes.	Corporate	1986	small revenue reduction	
Changes to flow-through share rules to eliminate investor liability.	Corporate	1986	revenue reduction depends on response	
$10,000 PGRT exemption.	Corporate	1986	small revenue reduction	
Wind energy equipment write-off.	Corporate	1986	small revenue reduction	
Increase in federal sales tax rate of 1%, bringing the general rate to 12%, the rate on construction materials and cable television services to 8%, and alcoholic beverages and tobacco to 15%.	Sales	1986	+700	1986
			+1,050	1987
			+1,125	1988
			+1,200	1989
			+1,300	1990
Increase in excise tax on alcohol, cigarettes and tobacco products.	Excise	1986	+125	1986
			+150	1987
			+150	1988
			+150	1989
			+150	1990
Sales tax exemption for tourist literature introduced.	Sales	1986	-10	1986
			-10	1987
			-10	1988
			-10	1989
			-10	1990

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT	
Reduction of dividend gross-up and tax credit from 1/2 to 1/3 of dividends from taxable Canadian corporations and repeal of 12.5% tax on dividends from small business corporations after end of 1986.	Personal	1986	-150	1986
			+250	1987
			+300	1988
			+330	1989
			+365	1990
Reduction of investment tax credit for unincorporated businesses.	Personal	1986	0	1986
			+35	1987
			+70	1988
			+145	1989
			+160	1990
Elimination of inventory allowance for unincorporated businesses.	Personal	1986	+25	1986
			+30	1987
			+32	1988
			+35	1989
			+38	1990
Marital exemption based on spouse's income for whole year in year of marriage.	Personal	1986	+20	1986
			+20	1987
			+20	1988
			+20	1989
			+20	1990
Limits to tax deferral of unpaid remuneration (including accrued bonuses) by employers.	Personal	1986	one-time revenue increase which depends on response	
Limits to tax deferral of employee benefits by employers and employees.	Personal	1986	prevents revenue loss	
Limits to investment tax credits available to limited partnerships.	Personal	1986	prevents large revenue loss	
Changes to allowable business investment losses.	Personal	1986	small revenue reduction	
3% surtax on basic federal tax of individuals.	Personal	1986	+550	1986
			+1,200	1987
			+1,260	1988
			+1,325	1989
			+1,400	1990

TAX CHANGES	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT	
Changes in air transportation tax.	Sales/Excise	1986	+5	1986
			+10	1987
			+10	1988
			+15	1989
			+15	1990
One-year extension of fuel tax rebate for primary producers.	Sales/Excise	1986	-120	1987

APPENDIX D

MANITOBA TAX CHANGES: 1972 - 1986

November, 1986.

MANITOBA TAX CHANGES: 1972-86

The following constitutes a brief summary of major tax changes introduced in Manitoba since 1972, their classification (eg. personal, sales/excise) and their revenue effects estimated at the time of their implementation. Not included are tax changes resulting from EPF tax transfer changes, nor Provincial revenue changes as a result of amendments to Canada's Income Tax Act.

The list was compiled from Budget Addresses, Information Bulletins, and Provincial and Municipal Finance (Canadian Tax Foundation).

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Mineral rights tax instituted; 10¢/acre for land of 40+ acres held by corporations.	Other	1972	+0.3 million
Tobacco tax raised to .2¢/cig. or 5¢ for a pack of 25.	Sales/Excise	1972	+4.0 million
Sales Tax Amendment:			
- Production machinery exemption removed with exception of farm equipment.	Sales/Excise	1972	+12.0 million
- Tax on the sale of wine, spirits increased to 10% from 5%.			+3.0 million
Succession and Gift taxes imposed to replace levies eliminated under federal tax reforms.	Other	1972	N.C.
Education Property Tax Credit Plan introduced; maximum credit of $140; minimum credit of $50.	Personal	1972	-28 million
Amusement tax exemption on admissions raised to $1.00 from $0.60.	Other	1972	N/A
Manitoba Property Tax Credit Plan: Maximum raised to $200 from $100 Minimum raised to $100 from $50.	Personal	1973	N/A
Provincial amusements tax of 10% discontinued and "tax room" offered to municipalities.	Other	1974	-2.0 million
Gasoline and motive fuel taxes reduced by 2¢/gal. to 15¢ and 18¢ per gallon respectively.	Sales/Excise	1974	-6.0 million
Mining royalties increased from 15% to 23%.		1974	N/A
Incremental oil royalties introduced.		1974	N/A

TAX CHANGE	CATEGORY	YEAR	NET ANNUAL REVENUE IMPACT
Increase in the limit for small business tax rate.	Corporate	1974	95 annually
Extension of two year write-off for machinery and equipment used in manufacturing and processing in Canada.	Corporate	1974	beginning in 1975-76 150 annually
Extension of two year write-off for pollution control equipment.	Corporate	1974	10 annually beginning in 1975-76
Remove limit for capital cost allowances for rental unit construction.	Corporate	1974	10 annually beginning in 1975-76
Exemption of clothing and footwear from federal sales tax.	Sales	1974	280 annually beginning in 1975-76
Reduction of federal sales tax from 9% to 5% on building and construction equipment.	Sales	1974	450 annually beginning in 1975-76
Exemption from federal sales tax of construction equipment.	Excise/Sales	1974	40 annually beginning in 1975-76
Exemption from federal sales tax of transportation equipment.	Sales/Excise	1974	100 annually beginning in 1975-76
Day Care Centres added to list of institutions exempt from federal sales tax.	Sales/Excise	1974	20 annually beginning in 1975-76
Increase in federal tax on tobacco, liquor and wines.	Sales/Excise	1974	+130 annually beginning in 1975-76
100% income deduction rule extended to donations to "designated institutions" as well as Crown institutions.	Other	1974 (October)	estimates n.a.
Tax of 30% of market value imposed on institutions who sell the donated object, property, etc.	Other	1974 (October)	estimates n.a.

Increase vendors' commission to 5% for collections under $200, 1% for collections over $200; previously, the rates were 3% and 2% respectively.	Other	1974	-1.0 million
Various sales tax amendments.	Sales/Excise	1974	-0.5 million
Introduce Cost of Living Tax Credit Plan to be implemented under income tax system.	Personal	1974	-14 million
Cost of Living Tax Credit increased to 3% of personal exemptions from 2%, less 1% taxable income.	Personal	1975	-9 million
Maximum Property Tax Credit increased to $300 from $250; minimum increased to $175 from $150.	Personal	1975	-4.5 million
Changes in succession duty exemptions: for preferred beneficiaries, to $200,000 form $150,000; for spouses, to $250,000 from $200,000.	Death	1975	-0.8 million
Additional provincial income tax payable by mining, oil and gas industries due to federal tax change to be remitted.	Corporate	1975	-2.0 million
Corporate income tax effective rate on profits of mining and oil companies increased.	Corporate	1975	N/A
Aviation fuel tax increased to 3¢/gal. from 2¢/gal.	Sales/Excise	1975	+400,000
Gasoline and Motive Fuel tax increased to 18¢/gal. from 15¢/gal. for gas; increased to 21¢/gal. from 18¢/gal. for motive fuel (2¢ to be transferred to Autopac).	Sales/Excise	1975	+9.0 million

Special surtax on income earners with $25,000+ annual income (for family of four).	Personal	1976	+5.4 million
Corproate income surtax of 2% applied to raise large business income tax rate on corporations to 15% from 13%.	Corporate	1976	+9.0 million
Institution of capital tax on corporations with assets in excess of $100,000; tax rate will be 0.2% of taxable capital.	Corporate	1976	+8.0 million
Changes in Gasoline and Motive Fuel tax to promote fuel conservation: aviation fuel tax raised to 5¢ from 3¢/gallon; railroad diesel to 10¢ from 5¢/gallon; refunds for off road diesel lowered to 11¢ from 16¢/gallon; others.	Sales/Excise	1976	+7.1 million
Tobacco tax raised from 0.6¢/cig. to 0.8¢/cig.	Sales/Excise	1976	+4.6 million
Liquor Commission mark-ups.	Other	1976	+13.5 million
Increase in Manitoba Property Tax Credits to $350 from $300; increase minimum credit to $200 from $175.	Personal	1976	-12.0 million
Provincial Sales Tax eliminated on insulation materials.	Sales/Excise	1977	-0.3 million
Maximum Property Tax Credit raised to $375 from $350; minimum credit increased to $225 from $200.	Personal	1977	N/A
Succession duty tax amended to provide $250,000 exemption, up from $150,000; taxable floor increased to $75,000 from $50,000	Personal	1977	-0.3 million
Provincial income tax eliminated for individuals not paying federal income tax.	Personal	1977	-4.0 million
Gift tax exemptions raised: to $5,000 from $2,000 for annual individual gifts; to $6,000 from $5,500 for spouses; aggregate annual exemption from $25,000 from $15,000.	Personal	1977	N/A

Succession duties, Gift tax and Manitoba Mineral Acreage tax eliminated.	Personal, Corporate	1977 (Oct.)	-5.4 million
Personal income tax rate decrease to 54% from 56%.	Personal	1978 (Special Session)	-13.6 million
Corporate income tax for qualifying small corporations reduced to 11% from 13%.	Corporate	1978 (Special Session)	-2.6 million
Maximum $100 School Tax Assistance program for pensioners introduced.	Personal	1978	N/A
Corporate income tax: extension of the 15% tax rate on corporations eligible for the small business deduction. Personal surtax expires.	Corporate	1978	+12.0 million
Minimum exemption for Corporate Capital Tax raised to $500,000 from $100,000.	Corporate	1978	-1.8 million
Tobacco tax rate increased from 0.8¢/cig. to 1.0¢/cig.	Sales/Excise	1978	+4.8 million
Tax adjustment for farm trucks and other minor changes.	Sales/Excise	1978	-0.5 million
Elimination of the 2¢/gal. Gasoline and Motive Fuel tax subsidies assigned to Autopac.	Sales/Excise	1978	No change
Changes in applicability of the Manitoba Retail Sales Tax, including taxing of mobile homes at half cost.	Sales/Excise	1978	-1.3 million
Temporary retail sales tax reduction (5 1/2 mos.); 2% from 5%.	Sales/Excise	1978	-61.5 million (in 5 1/2 mon. period)
Incremental mining royalty tax rate of 18% and 35% (depending on rate of return) replaced by flat 18%.	Corporate	1979	N/A
Introduction of investment tax credit against royalties of 5% of investment in new facilities or expansion/improvement of existing facilities.	Corporate	1979	N/A
Termination of taxation of industrial minerals.	Corporate	1979	N/A

Selected Retail Tax exemptions.	Sales/Excise	1979	-2.1 million
Extend exploration deduction and processing allowance improved.	Corporate	1979	N/A
Pensioners School Tax Assistance Program expanded from $100 to $175.	Personal	April, 1979	N/A
Minimum Property Tax Credit increased to $325 from $225.	Personal	April, 1979	N/A
Gasoline and Motive Fuel Tax changed from volumetric tax rate to ad valorum rate of 20% of retail price.	Sales/Excise	1980	N.C. in 1980
Water power rentals increased.	Other	1980	+7.0 million
Tax Credit Reform:			
- maximum property tax credit increased to $475 to $375 - maximum property tax credit for pensioners increased to $525 from $375 - Manitoba supplement for pensioners; maximum benefits doubled and benefits extended to pensioners 55 and over, formerly 65 and over - SAFER benefits extended to low income families with children - adjustment to provincial social allowance system to include all forms of income, regardless of source - initiate Child-Related Income Support Program (CRISP) - assorted other changes.	Personal	1980	-28.6 million
Tobacco tax increase from 1.0¢/cig. to 1.2¢/cig.	Sales/Excise	1980	+4.4 million
Corporate Capital Tax exemption levels increased from $500,000 to $750,000 of taxable capital.	Corporate	1980	-0.4 million
Selective Retail Sales Tax exemptions	Sales/Excise	1980	-2.7 million

Introduction of Manitoba Political Contributions Tax Credit: - 75% of first $100 of contribution - 50% of next $450 of contribution - 33 1/3% of total contributions exceeding $450.	Personal	1981	-0.2 million
Tobacco tax increase from 1.2¢/cig. to 1.4¢/cig.	Sales/Excise	1981	+5.0 million
Liquor Commission mark-ups.		1981	+4.0 million
Corporate income tax increased from 0.2% to 0.6% for trust/loan companies and from 0.2% to 0.8% for banks with offsetting adjustments to the tax base.	Corporate	1981	N.C.
Change to calculation of Cost of Living Tax Credit to allow married couples to transfer income.	Personal	1981	-2.0 million
General maximum Manitoba Property Tax Credit increased to $525 from $425; maximum credit for seniors raised to $625 from $525.	Personal	1981	-9.0 million
Lien notes excluded from the corporate capital tax base for farm machinery, truck and auto dealerships.	Corporate	1981	-0.25 million
Introduction of a 1.5% Health and Education levy.	Corporate	1982	+110 million
Introduction of a 'high-income surtax' for individuals with taxable income in excess of $25,000, $34,000 for a family of four.	Personal	1982	+16.2 million
Corporation Capital tax of 2% imposed on banks; raised from 0.8%.	Corporate	1982	+2.6 million

Increase provincial levy on premium revenue from sales by insurance firms of insurance other than life, accident and sickness.	Other	1982	+2.8 million
Increase in diesel fuel tax.	Sales/Excise	1982	+6.5 million
Tobacco tax increase of 0.4¢/cig. to 1.8¢/cig. from 1.4¢/cig.	Sales/Excise	1982	+7.5 million
Liquor Commission mark-ups.	Other	1982	+20 million
Corporation capital tax exemption for small businesses raised to $1,000,000 from $750,000.	Corporate	1982	-0.4 million
Vendors' commissions under the Retail Sales Tax Act raised.	Sales/Excise	1982	-1.0 million
Reduction in small business income tax rate to 10% from 11%.	Corporate	1982	-3.5 million
Various sales tax reductions.	Sales/Excise	1982	-1.6 million
Removal of provincial capital gains tax on sales of family farms.		1982	-1.0 million
Freeze introduced on gasoline and motive fuel tax rate.	Sales/Excise	1982	-8.5 million
Retail sales tax increased from 5% to 6%.	Sales/Excise	1983	+64 million
Corporation Income Tax on large business income increased from 15% to 16%: personal service corporations taxed at 16%.	Corporate	1983	+6.6 million
Special Capital Tax rate on banks remains in effect for one year to July 1, 1984 at 2.0%.	Corporate	1983	+3.2 million
Fuel tax increases: Gasoline - 6.4/l to 7.5/l Diesel - 7.3/l to 8.6/l Gasohol - preference over gasoline rate reduced from 4¢/l to 3¢/l	Sales/Excise	1983	+21.4 million
Tobacco tax is increased from 1.8¢/cig to 2.1¢/cig.	Sales/Excise	1983	+7.5 million

TAX CHANGE	CATAGORY	YEAR	NET ANNUAL REVENUE IMPACT
Retail Sales Tax increase from 5% to 6% and special rate on liquor other than domestic beer from 10% to 12%.	Sales/Excise	1983	+64.0 million
Corporation Income Tax rate on large business income increased from 15% to 16%.	Corporate	1983	+6.6 million
Gasoline Tax increase from 6.4¢ to 7.5¢ per litre; Diesel Tax rate increase from 7.3¢ to 8.6¢ per litre; and reduction in gasahol preference from 4¢ to 3¢ per litre.	Sales/Excise	1983	+21.4 million
Tobacco Tax rate increase from 1.8¢ to 2.1¢ per cigarette.	Sales/Excise	1983	+7.5 million
Exemption from Health and Education Levy for employers with annual payrolls under $50,000 and graduated rate reduction fro employers with payrolls of $50,000 tp $75,000.	Corporate	1984	-6.0 million
Increase personal low income tax reduction.	Personal	1984	-3.5 million
Introduction of Manitoba Manufacturing Investment Tax Credit.	Personal, Corporate	1984	-10.0 million
Modification to Manitoba Capital Gains Tax Refund Program increasing sheltered capital gains of eligible farmers from $100,00 to $150,000.	Personal	1984	N/A
Exemption for specified safety equipment and coin-operated carwashers and laundromats from Retail Sales Tax.	Sales/Excise	1984	-0.3 million

Increase Railway Locomotive Diesel Fuel Tax rate from 5.6¢ to 7.1¢ per litre and reduce gasoline preference from 3¢ to 2.5¢ per litre.	Sales/Excise	1984	+3.3 million
Tobacco Tax rate increased from 2.1¢ to 2.6¢ per cigarette.	Sales/Excise	1984	+12.5 million
Gasoline Tax increase from 7.5¢ to 8.0¢ per litre, surcharge on leaded gasoline of 0.9¢ per litre, increase Diesel Fuel Tax from 8.6¢ to 9.2¢ per litre, and increase Railway Locomotive Diesel Fuel Tax from 7.1¢ to 9.2¢ per litre.	Sales/Excise	1985	+21.6 million
Tobacco Tax rate increase from 2.6¢ to 3.1¢ per cigarette.	Sales/Excise	1985	+12.5 millions
Water Power Rental rates increase from $2.25 to $4.75 per horsepower-year and installed capacity charges from $1.30 to $1.90 per installed horsepower.	Corporate	1985	+4.0 million
Corporation Capital Tax rate increase from 0.2% to 0.3%.	Corporate	1986	+8.1 million
Corporation Capital Tax rate on banks increased from 1.9% to 3.0% and for trust and loan companies 0.6% to 0.9%.	Corporate	1986	+5.0 million
Corporation Income Tax rate on large business income increase from 16% to 17%.	Corporate	1986	+7.1 million
Water Power Rental rates increased from $7.75 to $11.75 per horsepower-year and installed capacity charges from $2.80 to $4.70 per installed horsepower.	Corporate	1986	+15.0 million
Motive Fuel Tax of 7¢ per kilogram imposed on natural gas.	Sales/Excise	1986	+9.0 million

Motive Fuel Tax on propane increase from 4.8¢ to 5.3¢ per litre.	Sales/Excise	1986	0.1 million
Tobacco Tax rate increased from 3.1¢ to 4.1¢ per cigarette.	Sales/Excise	1986	20.5 million